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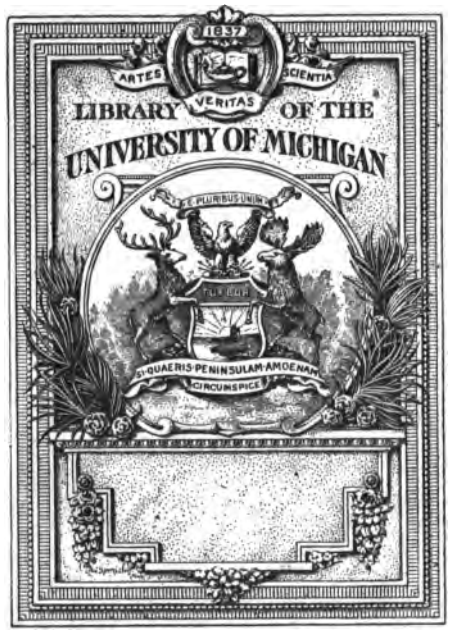
A FIRST YEAR IN BOOKKEEPING AND ACCOUNTING

MacFARLAND
AND
ROSSHEIM

D. APPLETON AND COMPANY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A FIRST YEAR
IN BOOKKEEPING AND ACCOUNTING

A FIRST YEAR IN BOOKKEEPING AND ACCOUNTING

BY

GEORGE A. MACFARLAND, B.S. IN ECON.

AND

IRVING D. ROSSHEIM, B.S. IN ECON., LL.B.

WHARTON SCHOOL OF FINANCE AND COMMERCE
UNIVERSITY OF PENNSYLVANIA

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FOREWORD

A TEXT-BOOK on bookkeeping and accounting is by no means an original undertaking, and the many treatises already written on the subject make it difficult for the authors to give their effort any distinguishing features. Their endeavor, however, has been to lay particular emphasis on the methods of exposition; appeal being made to the understanding rather than to the memory of the student. As to the merits of any departure from accepted theories of teaching, the book must speak for itself, and it is hoped that it will be of sufficient benefit to instructor and student alike to warrant its holding some place in the literature on the subject.

The plan of work adopted has been to follow as far as possible the historical evolution of the subject, explaining the difficulties as they arise, and assuming no previous knowledge on the part of the reader. Each chapter contains an exposition of the subject, followed by illustrative problems and solutions to enable the student better to understand the principles explained and to apply them in the problems.

The text, as the title indicates, is designed to provide a full first year's work in bookkeeping and accounting, for use in higher institutions of commercial training.

Three Principal Problems are found at the end of the book. Principal Problem I embodies all the subjects discussed in Chapters IV to XXIII; and Principal Problems II and III, either of which may be used, cover the subject of Columnar Books, treated in Chapter XXIV. In addition to these main problems, the instructor may assign as many of the supplementary problems, to be found at the end of the chapters, as he deems necessary to impress thoroughly the particular subject being considered.

The authors desire to take this opportunity to express their sincere appreciation of the valuable suggestions and hearty coöperation of Mr. Albert Hill, General Auditor of the Atlantic Refining Co.,

257300

Philadelphia, Pa., Dr. Edward P. Moxey, C.P.A., Head of the Department of Accounting in the Wharton School of Finance and Commerce, University of Pennsylvania, and finally, Mr. Charles Hart, Head of the Department of Business Practice in the Washington (D.C.) High Schools, whose valuable criticism of the manuscript permitted its publication in the present form.

JANUARY 1, 1913.

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A FIRST YEAR IN BOOKKEEPING AND ACCOUNTING

CHAPTER I

INTRODUCTION

Definition. — Bookkeeping is the art, method, or practice of recording business transactions in a systematic manner.

Objects. — Its objects are: (1) To enable the proprietor to ascertain the money value in, or due, the business, represented by the assets; and the money value owed by the business, represented by the liabilities. (2) To enable the proprietor to ascertain whether the business is being run at a profit or loss, and the sources of such profit or loss.

Distinction between Bookkeeping and Accounting. — Bookkeeping is the art of recording business transactions. An art is defined as a branch of human knowledge which leads to the doing or making of something. The "something" in this instance is a running history of the business in terms of figures.

Accounting, on the other hand, may be called the science of business transactions as distinguished from the art; and as by a science we mean "classified facts," so accounting comprises the assembling or classifying of the facts which bookkeeping has arranged. By analyzing them (*i.e.* breaking them up) and constructing them in different shapes and pictures, accounting produces the results as losses and gains, leakages, economies, etc., which tell the story of the business, its progress or retrogression, and its limitations and possibilities.

A bookkeeper gives a history of the business which the accountant interprets or analyzes.

Necessity for Bookkeeping and Accounting. — While it is true that but a small number of the students having reference to this volume will eventually reach the summits of accounting, having no desire

to follow it as a profession, yet it will be found that a certain amount of accounting knowledge is an essential to the satisfactory conduct of everyday business, whether that business assume the dignity of commercial activity or be merely the reckonings of a housewife. It is not an isolated science, irrelevant to the practical workaday life, but is to be found in every avenue of trade; and developed, it becomes a highly interesting study. Without bookkeeping we must rely on memory; and the difference between records and interpretation of accounts on the one hand, and guess work or rule-of-thumb on the other hand, is the difference between success and failure.

The Change of Attitude towards the Bookkeeper. — Many of us remember the old-time disparagement of the services of the bookkeeper and accountant. The practical man of the last generation wanted the assistant who could buy, sell, or make something. To him the office force was a luxury, and too often the first department to be discarded or curtailed in an endeavor to reduce expenses. The energies of the business man were devoted to the manufacture or purchase of goods at the lowest figure, and their sale at a price yielding the greatest margin of profit, with no eye to such expenses as rent, taxes, light, heat, power, and depreciation of his assets, which so largely effected a reduction of his profits. It was only when business became so highly competitive as to force down his selling price, reducing his profits, that he was driven to a consideration of those elements entering into his profits and losses. To facilitate his investigation it was necessary that an intelligent exposition of his business facts be placed before him; and there gradually evolved this daily record, the making of which devolved on the bookkeeper.

Necessity of Records. — In this competitive age when success is dependent upon successful contracts, and successful contracts on low and yet profitable bids or estimates, we see the necessity for records which enable us to make low and yet safe estimates. In order to gauge the future properly, reference must perforce be made to the records of the past.

Facts they Show. — So, then, it is to the accounting force that the manager must look for his knowledge of those statements which show the past, present, and comparative volumes and values of his purchases; the volume of his production and its cost, the gross amount of his sales, the cost of marketing his goods, the gross and net returns, and the comparative profits of his business.

Development. — The development of bookkeeping really follows the development of trade and commercial exchange.

Barter by primitive man was the preliminary to a future demand for a medium of exchange, and the latter was but the forerunner of a greater expansion, viz. the extension of credit; and with the use of credit we meet our first absolute need for bookkeeping records.

Credit, which is the confidence of one man in the ability and intent of another to pay, is the institution which is responsible for the tremendous growth and development of business enterprises. Credit, however, is deferred payment, being nothing more than a promise to pay, either written or inferred; and unless noted by some appropriate record, resort must be had to the memory, which is always untrustworthy.

The early traders gradually found themselves involved in such a maze of transactions entailing promises of delivery and payment, that it became a physical impossibility to recall what they owed and what was due them without some aid to the memory. Though these "reminders" were at first of the crudest nature, they gradually grew up from the "small beginning" to the systematic records now represented in the different modern accounting systems.

Early Records. — One of the first records found among the Latin-speaking people was the notched stick. A stick was grooved to represent the number of cattle, sacks of grain, or other items of value that were owed. The stick was then split lengthwise and one half was given to the man who owed ("the debtor") and the other half was retained by the "creditor." At the time of the settlement of the debt the two halves were compared to prevent fraud.

As the art of writing became less the monoply of the church and the scrivener, and more a matter of general knowledge, the whittling of the notched stick gradually gave away to the innovation of slips of paper or tickets on which were written the names of the debtor or creditor and the amount due. These records came to be known as debit or credit tickets, according to whether the name was that of the obligor or the obligee.

Debit and Credit. — This introduces to us the words "debit" and "credit," which are so important in bookkeeping phraseology. Debit comes from the Latin word *debere*, meaning "to owe"; credit comes from the Latin word *credere*, meaning "to trust." Hence, *debit*, "he owes"; *credit*, "he trusts"; and from the same derivation we have the very common words "debtor" and "creditor."

Variations of these methods of memoranda record are referred to in contemporaneous writings, where the village tapster chalked the charges against his customer on the door of his inn, and when the account was settled, the record was rubbed off the door.

Day Book. — The first fairly definite commercial records in books were made in 1211 in a Florentine Bank. They were merely dictated memoranda for each client, with no attempt at connection, no chance of detecting errors or omissions; merely statements of amounts owed by or owed to the bank, in narrative form.

Ledgers. — During the fourteenth century we find that in France, Germany, Italy, and other countries a number of Ledgers were used, which were merely aids to the memory and in which were kept records only of personal accounts.

Like all certain sciences, accounting has been a natural growth, satisfying each contingency as it arose, developing and expanding to meet the demands made upon it; and therefore in a treatise on the subject it is logical to discuss only in a narrative way the primitive forms, so crude, so inadequate. But when we reach the point where it is possible for the first time to declare that there exists a "system" of accounting, which by the observance of certain well-defined rules will result in uniform records, then and then only must we be more specific. With these few words of introduction we enter upon the study of Single Entry Bookkeeping.

CHAPTER II

SINGLE ENTRY BOOKKEEPING

Definition. — Single Entry Bookkeeping is in its essence the recording of personal debts only. Whether the record be of the primitive order we have just mentioned, or the single entry records of a present-day firm of size, the result of a pure system of this kind would give us only records of personal obligations. When an establishment using the so-called single entry produces more results than mere records of amounts owed to and by the business, just so far is it encroaching on double entry bookkeeping. It is this mixture of single and double entry by firms supposedly keeping their records by single entry that makes an exposition of this subject so difficult. To discuss fully the single entry as found in professional offices and mercantile establishments, we would be compelled to consider each set separately, since being mongrel types they contain not only the fundamentals of pure single entry, but such common features of double entry as the proprietor of the establishment may happen to know. Our discussion must therefore be limited to pure theoretical single entry.

The only books necessary are a Journal and a Ledger.

A Journal is a book of original entry or first record, containing the names of the persons to be debited or credited, with such explanations as each transaction may warrant, and so arranged that the debit or credit may be quickly ascertained for the purpose of transfer to a book of final record.

A Ledger is a book of final record, containing a series of headings, each of which is the name of a person, under which are summarized the debits and credits to that person as found in the Journal.

Single Entry an Aid to Memory. — We must constantly bear in mind that single entry is purely an aid to the memory, and hence in our Journal we will record only those personal transactions involving payments in the future, and of which we have no other record. We may suggest the following two rules:

RULES

1. (*a*) Debit a person when he becomes indebted to the business.
   (*b*) Credit a person when he liquidates the debt.
2. (*a*) Credit a person when he trusts the business.
   (*b*) Debit a person when the business liquidates the debt.

Exceptions. — To state the application of the above rules from a negative standpoint, we may say that they do not apply to those transactions which are pure barter and are settled immediately; for instance, the sale or purchase of merchandise for cash, or to any other transaction from which there is evidence of debt, as the purchase or sale of merchandise for a note (a written promise to pay).

To illustrate the above rules of journalizing, take the following transactions with their proper record in the Journal:

Oct. 1, 1913. — 1. Alton B. Kirk commences the general merchandise business this day, investing as follows:

Store and Lot	$ 4600.00
Horse and Wagon	250.00
Cash	4000.00
Note of S. Dietrich & Co.	750.00
Claims against Henry R. Edlund and James Garvin, each for	500.00

The business assumes an obligation to D. F. Payne for $ 600.00.

Oct. 3, 1913. — 2. Purchase from D. W. Holton, for cash, merchandise to value of $ 2000.00.

3. Sell to Henry R. Edlund, $1100.00 worth of merchandise, on account.

4. Purchase from D. W. Holton, $1500.00 worth of merchandise, for which Mr. Holton receives a 30-day note.

Oct. 4, 1913. — 5. Pay the Carmine Paint Co. for painting the store, $100.00.

6. Sell to D. F. Payne, $400.00 worth of mdse., on account.

7. Sell to Harrison F. Reeder, $600.00 worth of merchandise, for cash.

8. Sell to Philip DeKuil & Co., $1000.00 worth of merchandise, receiving in settlement a 30-day note.

Oct. 6, 1913. — 9. Alton B. Kirk withdraws $100.00 from the business, of which $ 25.00 is salary.

10. Pay the clerk his weekly salary, $14.00.

Oct. 8, 1913. — 11. Pay D. F. Payne, $100.00 on account.

12. Receive check for $1000.00 from Henry R. Edlund, to apply to his account.

SOLUTION

Single Entry Journal

OCTOBER 1, 1913

	L. F.						
Ex. 1	1	Alton B. Kirk commenced business, investing as follows: Store and Lot $4600.00 Horse and Wagon 250.00 Cash 4000.00 Notes Receivable 750.00 H. R. Edlund 500.00 James Garvin 500.00 $10600.00 Less Claim of D. F. Payne 600.00 $10000.00	Cr.			10000	00
	1	H. R. Edlund owes as above	Dr.			500	00
	1	James Garvin owes as above	Dr.			500	00
	1	D. F. Payne due him as above	Cr.			600	00
		3					
Ex. 3	1	Henry R. Edlund sell him mdse. on account	Dr.			1100	00
		4					
Ex. 6	1	D. F. Payne sell him mdse. on account	Dr.			400	00
		6					
Ex. 9	1	Alton B. Kirk withdraws $100.00, of which $25.00 is salary	Dr.			75	00
		8					
Ex. 11	1	D. F. Payne send him check to apply on acc't	Dr.			100	00
Ex. 12	1	H. R. Edlund receive his check to apply to his account	Cr.			1000	00

Explanation. — The Journal, as mentioned before, is a book of original entry, in which we make the first record of a debit or credit to any account. From the illustration it will be seen that the rul-

ings as given are not absolutely fundamental. For the sake of uniformity in our work we have adopted this (a double entry Journal) for our work in single entry, although a page with only one column would have been sufficient. To explain the Journal as given, we find that the first column on the extreme left is not used. The second column, known as the "folio" column, is to record the number of the page of the Ledger to which the particular debit or credit is posted. The middle or large space is to record the name of the person debited or credited, with such explanation as may be deemed necessary. Of the last two columns the inner one is unimportant and may be disregarded entirely, or used to tabulate the various items making up the debit or credit; while the last column is for the purpose of recording the particular amount to be debited or credited opposite the person's name. One of the most important points to be noted in a single entry Journal is to place conspicuously the sign "DR." or "CR." ("debit" or "credit"), as this is the only means of knowing later how to classify the particular item. Preferably it should be done as in the illustration.

Ex. 1. — Alton B. Kirk is credited because he has trusted the business with the net amount of value invested.

The listing of the items is purely explanatory and in no instance is extended to the money column.

H. R. Edlund and James Garvin are separately debited because Mr. Kirk has transferred his claims against these men to the business, which they now owe; hence, the debit. Similarly, Mr. Kirk has transferred his indebtedness to D. F. Payne to the business, which is now trusted by D. F. Payne; hence, the credit.

Ex. 2. — Note that no entry is made for this purchase from D. W. Holton for cash, as nothing need be remembered from this transaction. You will recall that only debts due to or by the business are recorded, so in a transaction where there is merely an exchange of commodities (in this case cash and merchandise), no record is necessary.

Ex. 3. — H. R. Edlund is debited because it is necessary to remember that he owes the business $1100.00 from the transaction; hence, the record.

Ex. 4. — This transaction is similar to Ex. 2, an exchange of tangible values (merchandise for a note, a piece of paper). It may be asked: "But how are we to remember that we owe $1500.00 on a note, when the note itself is in D. W. Holton's possession?" We

must suppose that some memorandum of this note is kept, as the stub of a Notes Payable Book. In single entry books we never find the Notes Payable recorded, and, in many cases, not even the memorandum is made.

Ex. 5. — No Journal entry is made for this transaction for the reason given in Ex. 2, as again no obligation has been incurred, payment being made immediately.

Ex. 6. — See Ex. 3.

Ex. 7. — See Ex. 2.

Ex. 8. — See Exs. 2 and 4. In this instance the business parts with merchandise and receives a note which remains in its possession until paid.

Ex. 9. — It will be noted in this entry that Mr. Kirk is debited with only $75.00, although he actually withdraws $100.00. The $25.00 is not strictly a withdrawal, but a payment for services to the business, similar to the purchase of any commodity for cash, viz. the painting (service) in Ex. 5. On the other hand, the $75.00 taken by Mr. Kirk must be looked upon as an amount due to the business, for which he is debited.

Ex. 10. — See Exs. 5 and 9.

Ex. 11. — D. F. Payne is debited, because the business liquidates in part the debt. This payment to D. F. Payne is to cancel part of a debt due by the business, an already existing credit; hence, the cancellation must come through a debit on the books.

Ex. 12. — H. R. Edlund is credited because he has liquidated a part of his debt due to the business. The payment is to cancel part of a debt due to the business, an already existing debit; hence, the cancellation must come through a credit on the books.

Ledger of Single Entry

ALTON B. KIRK, CAPITAL

DATE		EXPLANATION	F.	AMOUNT		DATE		EXPLANATION	F.	AMOUNT	
1918 Oct.	6		1	75	00	1918 Oct.	6		1	10000	00

H. R. EDLUND

1913 Oct.	1		1	500	00	1913 Oct.	8		1	1000	00
	3		1	1100	00						

JAMES GARVIN

1913 Oct.	1		1	500	00						

D. F. PAYNE

1913 Oct.	4		1	400	00	1913 Oct.	1		1	600	00
	8		1	100	00						

Explanation of Posting the Journal. — By posting is meant the transcribing of every debit or credit as it appears in the Journal to its respective account in the Ledger.

It is very evident that the purpose of our Ledger is to collect under each heading all the debits and credits pertaining to that account, so that we may at any time ascertain the exact balance due to or by a person. Referring to the illustration, it will be seen that a ledger page is made up of two sides, namely, the left-hand side for "debits," and the right-hand side for "credits"; and in turn each side is subdivided into a series of parallel columns as follows: the first, for the month; the second, for the day of the month; the third, for explanation (but of no use in single entry bookkeeping); the fourth, called the "folio" to designate the number of the page of the Journal from which the particular debit or credit is taken; and the fifth and sixth columns, for dollars and cents, respectively.

PROBLEM 1

Journalize and post by Single Entry Bookkeeping the following:

Oct. 1, 1913. — Adam Smyth began business with cash, $1600.00; merchandise, $3000.00; an open account against C. C. Cole for $500.00; and several notes owing to him amounting to $900.00. Smyth owed on a note, $700.00.

Oct. 2, 1913. — Bought merchandise of N. N. Clegg on account, $300.00.
Oct. 3, 1913. — Sold W. S. Weber, merchandise on account, $520.00.
Oct. 4, 1913. — Bought lot of ground and small store for $1200.00 and gave a note in payment.
Oct. 5, 1913. — Sold D. C. Binns, merchandise for cash, $240.60.
Oct. 6, 1913. — Paid freight and cartage, from cash drawer, $22.25.
Oct. 8, 1913. — Sold J. C. Knight, merchandise for $250.00. Knight paid $150.00 in cash, balance on account.
Oct. 9, 1913. — Sold W. L. Dwight, merchandise on account, $296.00.
Oct. 10, 1913. — Paid N. N. Clegg, cash on account, $100.00.
Oct. 13, 1913. — Paid Bookkeeper salary, from the cash drawer, $37.50.
W. S. Weber paid his bill of Oct. 3; by cash, $120.00, and his note for the balance.

PROBLEM 2

1. Write the following entries in a Single Entry Journal which you are to prepare. Distinguish between debit and credit entries.

2. Rule up a Ledger and open the different accounts with persons, four on a page.

3. Post from the Journal to the Ledger.

Oct. 1, 1913. — E. D. Fields began business with cash, $4100.00; real estate, $5000.00; notes in the safe, $750.00; and a debt against J. Jones for $325.00. Notes outstanding to creditors, $525.00; merchandise on hand, $2825.00.
Sold merchandise for cash, $625.00.
Oct. 2, 1913. — Bought of E. P. Price, merchandise on account, $550.00. Paid freight in cash, $12.00.
Oct. 3, 1913. — Bought of John James, consignment of goods, $410.00. Paid $200.00 in cash, balance on account.
Sold M. Frank, merchandise on account, $175.00.
Oct. 4, 1913. — Bought of S. Wilson for cash, merchandise, $725.00. Sold W. Ayres bill of merchandise, $480.00. Received cash, $200.00, and charged balance to his account.
Sold A. W. Macey an invoice of goods for $80.00, on account.
Oct. 5, 1913. — J. Jones paid his debt of $325.00.
Paid E. P. Price, $250.00 on account, and gave note for balance.
Sold Perry & Co., merchandise, $300.00. Received note for same.
M. Frank paid bill of Oct. 3d in cash.

Oct. 6, 1913. — Bought stationery for cash, $ 25.00.
Paid freight bill in cash, $ 6.75.
Purchased merchandise of E. F. Star, $ 580.00. Paid $ 200.00 cash, and balance by note.
Sold J. Jones, merchandise on account, $ 800.00.

Oct. 8, 1913. — Paid rent for month in cash, amounting to $ 150.00.
Sold G. Baird, merchandise for cash, $ 275.00.
Sold M. McKean, merchandise on account, $ 380.00.

Oct. 11, 1913. — A. W. Macey settled bill of Oct. 4th by cash.
Sold to F. Wood, merchandise for cash, $ 90.00.

Oct. 12, 1913. — W. Ayres paid balance due on his purchase of Oct. 4th.

Oct. 13, 1913. — J. Jones paid $ 400.00 on account of bill of 6th instant.
Paid note of $ 300.00 due Price, which matured to-day.
Purchased lot for $1500.00, paying $ 500.00 down in cash, balance by note.
Bought horse and wagon of Philadelphia Horse Exchange, $ 300.00, on account.

Oct. 15, 1913. — Perry & Co. purchased merchandise on account, $ 80.00.

NOTE. — The student should save his solution to these problems as they will be continued in later chapters.

PROBLEM 3

Journalize and post by Single Entry:

Oct. 2, 1913. — H. F. Rice commenced business with:

Cash	$7400.00
Real Estate	6100.00
Notes in the safe	450.00
Amount owed by J. Kelly	275.00
Amount owed by A. Smart	75.00
Notes outstanding to creditors	725.00
Merchandise on hand	1735.00

Sold merchandise for cash, $540.00.

Oct. 3, 1913. — Bought of S. Johnson, merchandise for cash, $265.00.
Paid freight on above, $8.00.
Bought of A. Wilde, merchandise on account, $340.00.

Oct. 4, 1913. — Sold James Fish, merchandise on account, $185.00.
Sold F. Munsey, bill of goods amounting to $340.00, receiving $140.00 in cash and his 30-day note for balance.
Had front of building painted by White, Ledd & Co. Bill rendered, $75.00.

Oct. 5, 1913. — Bought of S. Whittle Sons, consignment of goods, $460.00. Gave in payment our 30-day note for $300.00, balance on account.

Sold to James Rooney, for cash, bill of goods, $210.00.

J. Kelly paid his debt of $275.00.

Oct. 6, 1913. — Sold George Elrich on account, invoice of goods, $190.00.

Paid A. Wilde cash on account, $140.00, and gave him note for balance.

Oct. 7, 1913. — Paid cash for advertising, $80.00.

Paid cash for office salaries, $78.00.

Oct. 8, 1913. — James Fish paid in full his bill of the 4th.

Paid for postage and office supplies, cash, $12.00.

Oct. 10, 1913. — Sold Samuel Woolworth bill of merchandise, $520.00. Received cash, $300.00, balance on account.

Paid White, Ledd & Co.'s bill of the 4th.

A. Smart settled his account by sending check for $75.00.

Oct. 11, 1913. — Bought merchandise of Thomas Phillips, $1500.00. Paid cash receiving a discount of 5 %.

Bought stationery, paying cash, $25.00.

Sold merchandise to James Gerson, $320.00. Received cash, $200.00, balance on account.

Oct. 12, 1913. — Paid taxes by check, $90.00.

Sold Peter Martin, merchandise on account, $235.00.

Sold real estate holdings to Star Realty Co. for $7200.00. Received cash, $5000.00, balance on account.

Oct. 13, 1913. — Bought of the Eureka Motor Car Co., two motorcycles, for two salesmen, $500.00. Paid $100.00 down, $200.00 in 30 days, balance in 60 days.

Sold to Frank Yacks for cash, merchandise, $425.00.

Oct. 14, 1913. — Purchased lot from S. Jackson for $4000.00, paying $1000.00 down, balance by 90-day note.

Sold to McCreary & Co., merchandise on account, $160.00.

Paid office salaries, $78.00.

CHAPTER III

PROFIT AND LOSS IN SINGLE ENTRY BOOKKEEPING

WE have kept Mr. Kirk's records in the Journal in the order of their occurrence and later collected them under their respective headings in the Ledger; now, assuming that Mr. Kirk has completed a given period in his business, he is desirous of ascertaining his present worth and his profit or loss. Is it possible to accomplish this from the books? Certainly not, as elements other than personal accounts must necessarily be considered. These elements, together with the Ledger Accounts, may be classified into two main groups, viz. Assets and Liabilities.

Assets.—An asset is any item of value owned by the business,

(*a*) either existing in tangible form, or

(*b*) owing to the business.

For example:

(*a*) Cash, merchandise, land, buildings, machinery, or notes receivable, or

(*b*) Personal accounts with debit balances.

Liabilities. — A liability is any debt or obligation of the business, as:

(*a*) Notes payable.

(*b*) Personal accounts with credit balances.

Cash. — Cash is money, or that which can be turned into money without delay, bargain, or litigation. It consists of such items as; money in bank, or on hand, checks, sight or demand drafts, and money orders.

Merchandise. — Merchandise is goods manufactured or purchased for the purpose of being sold at a profit.

Inventory. — An inventory is the investigation of an asset for the purpose of ascertaining its quantity, quality, and value, presented in the form of a detailed list or schedule. Thus, a Merchandise Inventory is the tabulation of the goods on hand, indicating the number, quality, and value, usually taken at cost.

Notes Receivable and Notes Payable. — "A promissory note is an unconditional promise in writing made by one person to another and signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a certain sum in money, to, or to the order of, a specified person or bearer."

When a note is received by the business, it is a notes receivable; when issued by the business, it is a notes payable. For more detailed discussion of notes receivable and payable, see Chapter VIII.

Present Worth. — Thus, to find Mr. Kirk's present worth and his profit or loss, it is first necessary to present a statement of his assets and liabilities. The form usually adopted is to list all of the assets on the left-hand side, and all of the liabilities on the right-hand side. Thus it is seen that in a solvent business the asset side must necessarily be the larger, and a balance must result. This balance comes to be known as the "Present Worth"; or, expressing the above form in an equation:

Assets − Liabilities = Present Worth

Present Worth is the value of a business at any time, or, in other words, is the difference between what it owns (assets) and what it owes (liabilities).

Collection of Assets. — The preliminary steps to the presentation of the assets are as follows:

1. Count cash in till, safe, and bank.
2. Take an inventory of the merchandise on hand.
3. Total the notes receivable.
4. Total all the accounts in the Ledger having debit balances, hereafter to be termed "Accounts Receivable."
5. Appraise, estimate, or ascertain the respective values of all other assets.

Collection of Liabilities. — The liabilities are ascertained as follows:

1. Total all the accounts in the Ledger having credit balances, hereafter to be termed "Accounts Payable."
2. Total the notes payable as found on the stubs of the Notes Payable Book, or from any other memoranda.
3. Ascertain the value of any other liabilities, such as loans, or mortgages payable.

We are now ready for an illustrative Statement of Assets and Liabilities for the business of Alton B. Kirk. Working along the lines given above, we find the following:

Store and Lot	$4600.00
Horse and Wagon	250.00
Cash	3286.00
Notes Receivable	1750.00
Inventory of Merchandise	700.00
Notes Payable	1500.00

From the Ledger we find that H. R. Edlund has a debit balance of $600.00, and James Garvin a debit balance of $500.00, which we shall classify as:

Accounts Receivable, $1100.00

On the Ledger we also find D. F. Payne's Account has a credit balance of $100.00, which we shall classify as:

Accounts Payable, $100.00

Statement

Assets			Liabilities		
Store and Lot	4600	00	Notes Payable	1500	00
Horse and Wagon	250	00	Accounts Payable	100	00
Notes Receivable	1750	00			
Inventory of Mdse.	700	00			
Cash	3286	00			
Accounts Receivable	1100	00	Present Worth	10086	00
	11686	00		11686	00

Explanation of Statement. — The foregoing Statement shows that Alton B. Kirk is worth at this time $10086.00. Thus, knowing his Present Worth, we proceed to find his profit or loss by comparing this amount with his net investment in the business. We find this in Mr. Kirk's account in the Ledger, which shows a credit balance of $ 9925.00. Since Mr. Kirk is worth more to-day than the actual amount he put into the business and kept there, the difference must be his profit, in this case $ 161.00. Expressing the above as an equation, we have:

Present Worth − Net Investment = Gain

or

Net Investment − Present Worth = Loss

It is well to note carefully that the net investment mentioned above is the $10000.00 originally invested by Alton B. Kirk, minus the $75.00 he subsequently withdrew, because withdrawals must always be considered in order to ascertain the gain or loss. In the case of a business of more than a year's standing, the following equations may be of assistance:

$$\text{Present Worth} - \left\{\begin{array}{l}\text{Past Worth} - \text{Withdrawal} \\ \text{or} + \text{additional Investments}\end{array}\right\} = \text{Profit}$$

or

$$\left\{\begin{array}{l}\text{Past Worth} - \text{Withdrawals or} \\ + \text{Additional Investments}\end{array}\right\} - \text{Present Worth} = \text{Loss}$$

We have now completed all of Single Entry Bookkeeping in so far as it is possible to construct logically an indefinite subject. Do not imagine that what we have discussed covers every Single Entry set we may happen upon, as we have worked out a system only upon the *theory* of the single entry. In practice, we find sets of this kind containing Cash Books, Sales Books, Invoice Books, and many other encroachments on double entry. But in any Single Entry set, it must be remembered that in ascertaining the present worth or profit or loss, the books give only a part of the information necessary; and in attempting to produce the result, the rest of the information must be gathered by observation and interviews with the bookkeeper or proprietor, preferably following the outline given earlier in the Chapter on the collection of assets and liabilities.

Comparison with Double Entry Bookkeeping

Advantages. — We cannot say that Single Entry Bookkeeping, in comparison with Double Entry Bookkeeping, has any advantages to the commercial establishment. To certain professional men, trustees, and charitable institutions, single entry is sufficient, as in many cases they are not interested in profits and losses, but only in personal accounts and cash, and use only a Cash Book for original records. To them Single Entry Bookkeeping may appeal for its simplicity in recording.

Disadvantages. — In this comparison Single Entry Bookkeeping has many disadvantages, of which we will mention some of the more evident.

1. The possibility of omitting a debit or a credit.
2. The possibility of making a debit instead of a credit, and *vice versa*.
3. The possibility of a mistake in figures.
4. The incompleteness of a record of personal accounts only.
5. The impossibility of procuring from the records a statement of profit and loss.
6. The lack of means of proving the correctness of its records, or statements.

PROBLEM 4

Resuming the business as per transactions in Problem 2, the assets and liabilities not shown by the Ledger are:

Cash	$4181.25
Merchandise Inventory	1900.00
Real Estate	6500.00
Horses and Wagons	300.00
Notes Receivable	1050.00
Notes Payable	1825.00

Find the loss or gain in the above business.

PROBLEM 5

Journalize and post by Single Entry Bookkeeping the following:

Oct. 19, 1913. — Oliver Harris began business, investing cash, $2000.00; merchandise, $1600.00; real estate, $5000.00; an open account against B. Smith for $400.00; and notes owing to him amounting to $800.00. Harris owed on a note, $400.00.

Oct. 20, 1913. — Bought stationery for cash, $25.00.
Bought merchandise for cash from N. N. Clegg, $400.00.

Oct. 21, 1913. — Oliver Harris withdrew his weekly salary of $25.00.
Sold merchandise to W. H. Dunn on account, $750.00.

Oct. 22, 1913. — Sold merchandise to J. Haines, $250.00. Received cash, $100.00, and Haines's note for the balance.

Oct. 23, 1913. — B. Smith paid cash on account, $200.00.

Oct. 24, 1913. — Paid outstanding note for $400.00.
Sold merchandise to L. Schwartz on account, $700.00.

Oct. 25, 1913. — Sold merchandise to H. Denny on account, $300.00.
Purchased merchandise from C. Gilbert on account, $340.00.
Purchased merchandise from S. Johnson, $600.00. Paid him $200.00 in cash, balance on account.

A week having passed, Oliver Harris wishes to know his present worth and the amount his business has made or lost during the week. The facts not shown by the books are:

Cash	$1250.00
Merchandise	1040.00
Real Estate	5000.00
Notes Receivable	950.00

Harris has also withdrawn during the week $20.00 worth of merchandise. Using these facts in conjunction with the books, find the present worth and the real profit or loss of this business.

PROBLEM 6

Journalize and post by Single Entry Bookkeeping the following:

Oct. 24, 1913. — N. Hart began business, investing cash, $2500.00; merchandise, $1200.00; an account receivable against L. Schwartz for $500.00; real estate, $4000.00; notes receivable, $800.00. N. Hart brought into the business several notes payable, amounting to $500.00.

Oct. 26, 1913. — Bought merchandise from N. H. Lewis for cash, $200.00. Bought merchandise from L. McLean on account, $250.00.

Oct. 27, 1913. — Paid freight on above by check, $15.00

Oct. 28, 1913. — Sold merchandise on account to B. Knight, $400.00.

Oct. 29, 1913. — Purchased merchandise from P. Davis, $600.00. Paid $100.00 in cash, note for balance. Purchased $10.00 worth of stationery for cash.

Oct. 30, 1913. — L. Schwartz gave his note for $250.00 on account of the amount due by him.

Oct. 31, 1913. — Sold merchandise to A. Pemrose on account, $750.00. Received cash in payment of a Notes Receivable, $300.00.

Having completed one week's business, N. Hart wishes to know the value of his business and the amount of profit or loss for the week. In addition to what his books show, he has the following:

Cash	$2475.00
Merchandise	1225.00
Real Estate	4000.00
Notes Receivable	750.00
Notes Payable	1000.00

N. Hart states that there is due him in weekly salary for running the business $25.00, which he has not yet taken.

Find the profit or loss of the business.

PROBLEM 7

Find the profit and loss from the following statement of a Single Entry set of books of a business owned by Jno. Smith and Henry James, who have invested equal amounts of capital, and are to share profits and losses equally.

Joint Capital	$ 48000.00
Jno. H. Black, Dr.	2650.00
B. S. Adams, Dr.	3200.00
B. H. Brown, Dr.	2975.00
P. H. Noyer, Cr.	1775.00
M. L. Green, Cr.	4700.00
Cash	12500.00
Real Estate	36000.00
Merchandise Inventory	4870.00
Notes Receivable	2200.00
Notes Payable	1730.00

PROBLEM 8

Boyer & King, who have been keeping their books by Single Entry Bookkeeping, present you with the following facts and ask you to ascertain their profit or loss and the present worth of each partner as of this date. Partners share profits and losses as follows: Boyer, 60 % ; King, 40 %.

Boyer Investment	$ 8500.00
Boyer Withdrawals	250.00
King Investment	7000.00
King Withdrawals	200.00
Accounts Receivable	6400.23
Accounts Payable	4900.20
Notes Receivable	8460.90
Notes Payable	5290.23
Cash	5983.42
Merchandise Inventory	8590.00
Real Estate	1800.00
Fixtures	400.00

PROBLEM 9

W. L. French, a retailing stationer, whose books have been kept by Single Entry Bookkeeping, calls in an accountant to prepare a Statement of Profit and Loss up to this time. The books and records show the following:

W. L. French	$25000.00
Cash	5000.00
Merchandise	13000.00
Accounts Receivable	14200.00
Fixtures	1710.00
Accounts Payable	5270.00
Notes Payable	3200.00
Mdse. taken by French for personal use	1250.00

The capital stated above is the balance after $1200.00 salary has been charged to it. Mr. French withdrew $1600.00 not salary, but did not charge it to capital.

PROBLEM 10

A. Kyle and B. Jackson, partners in a retail business, have been keeping their books by Single Entry Bookkeeping, and they give us the following facts from their Ledger and records, and ask us to show their profit or loss under Single Entry, and the present worth of each partner. Partners share profits and losses as follows: Kyle, 60 %; Jackson, 40 %.

A. Kyle, Original Investment	$22000.00
A. Kyle, Withdrawals	450.00
B. Jackson, Original Investment	19000.00
B. Jackson, Withdrawals	350.00
Cash	7600.00
Merchandise	17000.00
Real Estate	10000.00
Notes Receivable	6200.00
Notes Payable	4750.00
Accounts Receivable	5513.00
Accounts Payable	8620.00
Fixtures	2500.00

PROBLEM 11

Continuing the business as per transactions in Problem 3, the assets and liabilities not shown by the Ledger are as follows:

Cash	$12543.13
Merchandise Inventory	300.00
Real Estate	4000.00
Motorcycles	500.00
Notes Receivable	450.00
Notes Payable	4500.00

Find the loss or gain in the above business.

CHAPTER IV

DOUBLE ENTRY BOOKKEEPING

THE striking characteristic of Single Entry Bookkeeping, as brought out in our discussion of the previous chapter, was the recording of either a single debit or single credit for certain transactions, and we saw the manifold objections to such a system.

Definition. — But now we come to that more exact art "Double Entry Bookkeeping," which, as the name implies, provides for a double entry, namely, a debit and credit for *every* transaction. It is this equalization of debit and credit in each transaction, which, maintained throughout all double entry, guarantees the mathematical accuracy, which is its salient feature.

Since Double Entry Bookkeeping requires a debit and a credit for every entry, it must necessarily embody more than personal accounts. Thus, we find that Double Entry Bookkeeping treats of two classes of accounts, viz. financial and nominal.

Financial Accounts are Asset and Liability Accounts, including thereunder all Personal and Property Accounts.

Personal Accounts are those with persons.

Property Accounts represent tangible things of value in the business, such as cash, real estate, machinery, etc.

Nominal Accounts are "explanation" accounts which explain the sources of our gains and losses, reflected in the increases and decreases of our assets and liabilities. Such accounts are: Interest, Discount, Commission, Wages, etc.

The fundamental books of Double Entry Bookkeeping are the Journal and the Ledger. It will, however, be found necessary to use additional books as the subject progresses.

The Journal is a book of original entry or first record, containing the names of the accounts to be debited and credited, with such explanation under each as may be warranted. The ruling of the Double Entry Journal is identical with the form given for the Single Entry, but it differs in that the two columns on the extreme right are used for debit and credit, respectively.

The Ledger is a book of final record containing a series of headings, each of which is the name of some account under which we summarize the debits and credits to that account as found in our Journal, or other book of original entry.

Of the two books mentioned above, the Journal, or other book of original entry based upon its principles, is the more important legally, because it is the book recognized as evidence in a court of law.

We cannot therefore lay too much stress upon the principle involved in the Journal, for it is here that we create the accounts which afterwards are to reveal to us the history of our business; and so it is necessary at this, our initial step, to differentiate properly between the accounts to be debited and credited, and to be assured that each entry preserves the balance essential to our system. This process is commonly known as journalizing.

Journalizing is the classifying of the debits and credits of each transaction.

For the proper classification of our accounts, it is necessary to have recourse to certain well-defined axioms of bookkeeping, as follows:

Every debit must have its equal and corresponding credit.

Every credit must have its equal and corresponding debit.

RULES FOR JOURNALIZING

Debit Rule. — Debit whatever comes into the business or costs the business value.

Credit Rule. — Credit whatever goes out of the business or produces value to the business.

A much broader and more generally applicable rule is

Cole's Responsibility Rule

Debit the account which assumes a responsibility.

Credit the account which shifts, gives up, or grants a responsibility.

The basis of this rule is the personification of the accounts. It assumes that such accounts, as Property and Explanation Accounts, as well as Personal Accounts, can be held responsible for the increases or decreases of the assets or liabilities, and that every transaction simply involves the assuming or shifting of this responsibility between the accounts.

Of the two rules given, Cole's is the more comprehensive and will be used throughout the illustrations.

Illustration. — To illustrate the application of the responsibility rule to other than Personal Accounts: The cashier of the business has $1000.00 in the safe for which he is responsible to the business. This is indicated on the books by a debit to Mr. Cashier; and as money is received into the business his responsibility is increased proportionately, and as money is paid out, his responsibility is decreased in like ratio, or he may be said to shift the responsibility elsewhere for the amount paid out. We have taken this example of the cashier as personifying the Cash Account. Similarly, when cash is received, the Cash Account, assuming the responsibility, is debited; and when cash is paid out, the Cash Account, having given up its responsibility, is credited. In like manner we can hold responsible such accounts as Land, Merchandise, Machinery, Notes Receivable, Notes Payable, Expense Accounts, etc.

To make an entry, one should always picture the transaction in his mind's eye, so as to determine:

1. The captions or headings for the accounts which will in the future convey the character of the transaction.
2. Which of the accounts has assumed or shifted the responsibility.

To illustrate the rules for journalizing, take the following transactions:

Oct. 1, 1913. — 1. Alton B. Kirk commences the general merchandise business this day, investing as follows:

Store and Lot	$4600.00
Horse and Wagon	250.00
Cash	4000.00
Note of S. Dietrich & Co.	750.00
Claims against Henry R. Edlund and James Garvin, each for	500.00

The business assumes an obligation to D. F. Payne for $600.00.

Oct. 3, 1913. — 2. Purchase merchandise from D. W. Holton, cash, $2000.00.

3. Sell merchandise to Henry R. Edlund, on account, $1100.00.

4. Purchase from D. W. Holton, merchandise, $1500.00. Give Holton a 30-day note in payment.

Oct. 4, 1913. — 5. Pay the Carmine Paint Co. for painting store, $100.00.
6. Sell merchandise to D. F. Payne, on account, $400.00.
7. Sell merchandise to Harrison F. Reeder, for cash, $600.00.
8. Sell merchandise to Philip DeKuil & Co., $1000.00. Receive 30-day note in settlement.

Oct. 6, 1913. — 9. A. B. Kirk, proprietor, receives $100.00 from the business, of which $25.00 is salary.
10. Pay the clerk his weekly salary, $14.00.
11. Pay D. F. Payne, on account, $100.00.
12. Receive from Henry R. Edlund, to apply on his account, check for $1000.00.

Double Entry Journal

		October 1, 1913	Dr.		Cr.	
Ex. 1		Store and Lot	4600	00		
		Horse and Wagon	250	00		
		Cash	4000	00		
		Notes Receivable	750	00		
		H. R. Edlund	500	00		
		James Garvin	500	00		
		Alton B. Kirk, Capital			10600	00
		Commence the General Merchandise Business, investing the above				
		Alton B. Kirk	600	00		
		D. F. Payne			600	00
		Being debt assumed by business				
		3				
Ex. 2		Merchandise	2000	00		
		Cash			2000	00
		Purchase from D. W. Holton				
Ex. 3		H. R. Edlund	1100	00		
		Merchandise			1100	00
		Sale of Merchandise on account				
Ex. 4		Merchandise	1500	00		
		Notes Payable			1500	00
		Purchase of Mdse. from D. W. Holton 30-day note given in payment				
		4				
Ex. 5		Expense	100	00		
		Cash			100	00
		Payment of Carmine Paint Co. for painting store				
Ex. 6		D. F. Payne	400	00		
		Merchandise			400	00
		Sale of Merchandise on account				

Ex. 7		Cash	600	00		
		Merchandise			600	00
		Sale of Mdse. to Harrison F. Reeder				
Ex. 8		Notes Receivable	1000	00		
		Merchandise			1000	00
		Sale of Mdse. to Philip DeKuil & Co.				
		Their 30-day note received in payment				
		6				
Ex. 9		Expense	25	00		
		Alton B. Kirk	75	00		
		Cash			100	00
		A. B. Kirk's withdrawal of salary, $25.00				
		and also $75.00 for private use				
Ex. 10		Expense	14	00		
		Cash			14	00
		Payment of clerk's weekly salary				
		8				
Ex. 11		D. F. Payne	100	00		
		Cash			100	00
		Payment to apply on account				
Ex. 12		Cash	1000	00		
		H. R. Edlund			1000	00
		Check received to apply on account				

Explanation of Illustrative Journal

Ex. 1. — This, it will be noted, is a compound Journal entry, illustrating that the two sides of our entry may be composed of several items, provided always that their sums be equal. Store and Lot, Horse and Wagon, Cash, Notes Receivable, H. R. Edlund, and James Garvin are separately debited with their respective amounts, these amounts appearing in the debit column because each account is now responsible to the business for the given amount. Alton B. Kirk is credited, having given up, or granted, $10600.00 of value, assumed by the separate debit accounts. Alton B. Kirk is debited with $600.00 because he is responsible for the business having a liability of $600.00 to D. F. Payne, whose account is credited because it has granted Alton B. Kirk's account responsibility.

Ex. 2. — This is simply an exchange of assets by which merchandise assumes the responsibility shifted to it by cash; hence, the debit and credit.

Ex. 3. — H. R. Edlund is debited because he is now responsible for the value of the merchandise gone out of the business, the reponsibility of which has been given up by the merchandise (credit).

Ex. 4. — This is an exchange of an asset for a liability, by which the asset Merchandise assumes a responsibility (debit), granted to it by the liability, Notes Payable (credit).

Ex. 5. — Expense is responsible for (debit) and explains the expenditure of cash, the value of which has been shifted (credit).

Ex. 6. — See Ex. 3.

Ex. 7. — Similar to Ex. 2, except that cash has here assumed the responsibility granted by merchandise.

Ex. 8. — Again an exchange of assets by which a written promise to pay is made to assume a responsibility formerly held by Merchandise.

Ex. 9. — Another illustration of a compound entry by which the accounts Expense and Alton B. Kirk are responsible (debit) for the $100.00 granted them by the account Cash (credit).

Ex. 10. — See Ex. 5.

Ex. 11. — D. F. Payne is debited because he is responsible for the granting to him of $100.00 in cash (credit).

Ex. 12. — Cash has assumed a new responsibility for $1000.00; hence, the debit. H. R. Edlund having granted cash, has shifted his responsibility, and his account is credited.

Posting. — The next step after journalizing is to post the debits and credits to their respective accounts in the Ledger, the procedure being identical with that of Single Entry Bookkeeping, though, of course, the ledger now includes both financial and nominal accounts. The proper time to post naturally depends upon the particular business, but it is always preferable to have the day's entries posted the same day, or, at the latest, the next, so that the bookkeeper, at a moment's notice, can give a statement of any account.

We are now ready to post the Journal.

Double Entry Ledger

ALTON B. KIRK, CAPITAL

1913 Oct.	1		J	1	600	00	1913 Oct.	1		J	1	10600	00
	6			1	75	00							
					675	00							

STORE AND LOT

1913 Oct.	1		J	1	4600	00							

Horse and Wagon

1913 Oct.	1		J	1	250	00							

Cash

1913 Oct.	1		J	1	4000	00	1913 Oct.	3		J	1	2000	00
	4			1	600	00		4			1	100	00
	8			1	1000	00		6			1	100	00
					5600	00		6			1	14	00
								8			1	100	00
												2814	00

Notes Receivable

1913 Oct.	1		J	1	750	00							
	4			1	1000	00							
					1750	00							

H. R. Edlund

1913 Oct.	1		J	1	500	00	1913 Oct.	8		J	1	1000	00
	3			1	1100	00							
					1600	00							

James Garvin

1913 Oct.	1		J	1	500	00							

D. F. Payne

1913 Oct.	4		J	1	400	00	1913 Oct.	1		J	1	600	00
	8			1	100	00							
					500	00							

MERCHANDISE

1918							1918						
Oct.	3		J	1	2000	00	Oct.	3		J	1	1100	00
				1	1500	00		4			1	400	00
					3500	00		4			1	600	00
								4			1	1000	00
												3100	00

NOTES PAYABLE

							1918						
							Oct.	3		J	1	1500	00

EXPENSE

1918													
Oct.	4		J	1	100	00							
	6			1	25	00							
	6			1	14	00							
					139	00							

Explanation of Illustrative Ledger

In constructing the Ledger we take the entries as they occur, posting first the debit side and then the credit side of each individual transaction. In each instance we note first in the Journal folio column the number of the page of the Ledger on which the account appears; and at the same time note in the Ledger folio column the number of the page of the Journal from which the debit or credit is taken. These folio columns act as a double check, facilitating the location of errors as they occur. The "J," the initial letter of the word "Journal," is placed in each account to indicate that the entry has come from that book.

"Alton B. Kirk, Capital," the proprietor's account, is placed first in the Ledger as a matter of custom. The arrangement of the other accounts is discretionary, although as they increase in number it is preferable to segregate the Financial and Nominal Accounts.

It is common usage to allow at least one page to an account.

PROBLEM 12

Journalize and post by Double Entry Bookkeeping the following:

Oct. 1, 1913. — James Willing began business with cash, $1600.00; merchandise, $2000.00: an open account against C. C. Cole for $500.00; and several notes owing to him amounting to $900.00. Willing owed on a note, $700.00.

Oct. 2, 1913. — Bought merchandise of N. N. Clegg on account, $300.00.

Oct. 3, 1913. — Sold W. S. Dunn, merchandise on account, $520.00.

Oct. 4, 1913. — Bought lot of ground and small store for $1200.00 and gave a note in payment.

Oct. 5, 1913. — Sold H. C. Binns, merchandise for cash, $240.60.

Oct. 6, 1913. — Paid freight and cartage from cash drawer, $22.65.

Oct. 8, 1913. — Sold J. C. Knight, merchandise for $250.00. Knight paid $150.00 in cash, balance on account.

Oct. 9, 1913. — Sold W. L. Dwight, merchandise on account, $296.00.

Oct. 10, 1913. — Paid N. N. Clegg on account, $100.00.

Oct. 13, 1913. — Paid bookkeeper salary from the cash drawer, $37.50.

Oct. 13, 1913. — W. S. Dunn paid his bill of Oct. 3d by cash, $120.00, and note for the balance.

PROBLEM 13

Journalize and post the following:

Oct. 24, 1913. — James Sullivan engaged in the coal business, investing cash, $8000.00.

Paid rent of store and yard for one month in advance, $80.00.

Oct. 25, 1913. — Bought of F. Davis, 300 tons of coal at $5.00 per ton, on account.

Sold J. Sanders for cash 25 tons of coal at $6.25 per ton.

Oct. 26, 1913. — Bought of R. Andrews for cash, $5.00 per ton, 200 tons of coal.

Paid cash to Philadelphia Horse Exchange for 2 horses and a wagon, $300.00.

Paid insurance on stock for one year, cash $25.00.

Oct. 27, 1913. — Gave F. Davis a 30-day note for $1500.00 to balance the account.

Oct. 28, 1913. — Sold L. Jefferson 200 tons of coal at $6.25, and received in payment cash, $250.00, and his note for balance.

Oct. 29, 1913. — Purchased from Stationery Supply Co., a safe; gave in payment check for $175.00.

Sold to Mrs. D. Simpson, 2 tons of coal at $6.50 per ton. Received in payment money order for $13.00.

Paid drivers' wages in cash $24.00.

PROBLEM 14

1. Make the following entries in a Double Entry Journal.

2. Rule up a Ledger and open the different accounts, four on a page.

3. Post from the Journal to the Ledger.

Oct. 1, 1913. — E. D. Fields began business with cash, $4100.00; real estate, $5000.00; notes in the safe, $750.00. J. Jones owes the business $325.00. Notes outstanding to creditors, $525.00. Merchandise on hand, $2820.00.
Sold merchandise for cash, $625.00.

Oct. 2, 1913. — Bought of E. P. Price, merchandise on account, $550.00.
Paid freight in cash, $12.00.

Oct. 3, 1913. — Bought of John James for cash, merchandise, $210.00.
Bought of John James on account, merchandise, $200.00.
Sold M. Frank, merchandise on account, $175.00.

Oct. 4, 1913. — Bought of S. Wilson for cash, merchandise, $725.00.
Sold W. Ayres bill of merchandise, $480.00. Received cash $200.00, and charged balance to his account.
Sold A. W. Macey invoice of goods on account, $80.00.

Oct. 5, 1913. — J. Jones paid his debt of $325.00.
Paid E. P. Price $250.00 on account and gave him note for the balance.
Sold Perry & Co., merchandise, $300.00. Paid by note.
M. Frank paid bill of Oct. 3d in cash.

Oct. 6, 1913. — Bought stationery for cash, $25.00.

Oct. 7, 1913. — Paid freight bill in cash, $6.75.
Bought merchandise of E. F. Starr, $600.00. Paid $200.00 in cash and balance by note.
Sold J. Jones merchandise on account, $800.00.

Oct. 8, 1913. — Paid rent for month in cash, $150.00.
Sold G. Baird, merchandise for cash, $90.00.
Sold M. McKean, merchandise on account, $380.00.

Oct. 11, 1913. — A. W. Macey paid bill of Oct. 4th by cash.
Sold F. Wood, merchandise for Cash, $275.00.

Oct. 12, 1913. — W. Ayres paid balance due on his purchase of Oct. 4th.

Oct. 13, 1913. — J. Jones paid $400.00 on account of bill of the 7th.
Paid note of $300.00 due Price, which matured to-day.

Oct. 14, 1913. — Purchased lot for $1500.00, paying $500.00 down, and balance by note.
Bought horse and wagon of Philadelphia Horse Exchange, $300.00 on account.

Oct. 15, 1913. — Perry & Co. bought merchandise on account, $80.00.

PROBLEM 15

Journalize and post the following:

Oct. 1, 1913. — H. F. Rice commenced business with:

Cash	$7400.00
Real Estate	6100.00
Notes in the safe	450.00
Debt owed by J. Kelly	275.00
Debt owed by A. Smart	75.00
Notes outstanding to creditors	725.00
Merchandise on hand	1735.00

Oct. 2, 1913. — Sold merchandise for cash, $540.00.

Oct. 3, 1913. — Bought of S. Johnson, merchandise for cash, $265.00. Paid freight on above, $8.00.

Bought of A. Wilde, merchandise on account, $340.00.

Oct. 4, 1913. — Sold James Fish, merchandise on account, $185.00.

Sold F. Munsey bill of goods amounting to $340.00, receiving $140.00 in cash, and his 30-day note for the balance.

Had front of building painted by White, Ledd & Co. Bill rendered, $75.00.

Oct. 5, 1913. — Bought of S. Whittle Sons, consignment of goods, $460.00. Paid by 30-day note for $300.00, balance on account.

Sold to James Rooney, merchandise for cash, $210.00.

J. Kelly paid his debt of $275.00.

Oct. 6, 1913. — Sold George Elrich invoice of goods on account, $190.00.

Paid A. Wilde cash on account, $140.00, and note for balance.

Oct. 7, 1913. — Paid for advertising in cash, $80.00.

Paid office salaries in cash, $78.00.

Oct. 9, 1913. — James Fish paid in full his bill of the 4th.

Paid for postage and office supplies, $12.00.

Oct. 10, 1913. — Sold Samuel Woolworth bill of merchandise, $520.00, on which he paid cash, $300.00; balance on account.

Paid bill of White, Ledd & Co. of the 4th.

A. Smart paid his bill of $75.00.

Oct. 11, 1913. — Bought $1500.00 worth of merchandise of Thomas Phillips, receiving 5 % discount for cash.

Bought stationery for cash, $25.00.

Sold merchandise to James Gordon, $320.00. Received cash, $200.00, balance on account.

Oct. 12, 1913. — Paid taxes by check, $90.00.

Sold Peter Martin, merchandise on account, $235.00.

Sold real estate holdings to Star Realty Co., $7200.00. Received cash, $5000.00, balance on account.

Oct. 13, 1913. — Bought of the Eureka Motor Car Co. two motorcycles for salesmen, $500.00 Paid $100.00 down, $200.00 in 30 days, balance 60 days.

Sold merchandise to Frank Yacks for cash, $425.00.

Oct. 14, 1913. — Purchased a lot for $4000.00, paying $1000.00 down and balance by note.

McCreary & Co. bought merchandise on account, $160.00.

Oct. 15, 1913. — Paid office salaries, $78.00.

CHAPTER V

THE TRIAL BALANCE

In posting the transactions in the previous chapter the possibility of omitting a debit or credit, or of substituting a debit for a credit or *vice versa*, was very great. It is but natural, therefore, that we should at this time question the accuracy of the work. Fortunately, our double entry system provides its own test. Reverting for the moment to our first principle, that "for every debit there must be an equal and corresponding credit," it is a mathematical certainty, if our work is correct, that the debit and credit sides of the Ledger must balance. In the Journal every transaction has equal debit and credit sides; hence, since we have posted each Journal debit and credit to its respective side in the Ledger, the sum of the debits of all the accounts must equal the sum of the credits of all the accounts. In other words, the sum of the debit totals of each of the accounts is equal to the sum of the credit totals of each of the accounts. For instance, the Trial Balance of the Ledger of Alton B. Kirk is as follows:

Trial Balance

Alton B. Kirk — October 8, 1913

L. F.		Dr.		Cr.	
1	Alton B. Kirk, Capital	675	00	10600	00
1	Store and Lot	4600	00		
1	Horse and Wagon	250	00		
1	Cash	5600	00	2314	00
2	Notes Receivable	1750	00		
2	H. R. Edlund	1600	00	1000	00
2	James Garvin	500	00		
2	D. F. Payne	500	00	600	00
3	Merchandise	3500	00	3100	00
3	Notes Payable			1500	00
3	Expense	139	00		
		19114	00	19114	00

It is a well-recognized principle of algebra that an equation will remain unaffected if an equal amount is deducted from both sides. Applying this principle to the above schedule, by deducting, in each instance where there is a debit and credit total, the lesser of the two sides from each side, it must follow that a debit or credit balance will result, the sum of the debit balances equaling the sum of the credit balances. To illustrate from the above schedule, the Trial Balance will appear as follows:

Trial Balance

ALTON B. KIRK — OCTOBER 8, 1913

L. F.		Dr.		Cr.	
1	Alton B. Kirk, Capital			9925	00
1	Store and Lot	4600	00		
1	Horse and Wagon	250	00		
1	Cash	3286	00		
2	Notes Receivable	1750	00		
2	H. R. Edlund	600	00		
2	James Garvin	500	00		
2	D. F. Payne			100	00
3	Merchandise	400	00		
3	Notes Payable			1500	00
3	Expense	139	00		
		11525	00	11525	00

Trial Balance. — A Trial Balance is a list or schedule of the debit and credit footings or balances of all the accounts remaining open in a Ledger at any specified time, together with the folio and name of the account.

Of the two Trial Balances given above, the better and by far the more common is the Trial Balance of Balances. It exhibits at a glance the exact balance of any account without further computation, and is equally serviceable in proving the correctness of our books.

Preparation of Trial Balance. — The steps necessary in the preparation of a Trial Balance with reference to the Ledger are as follows:

1. Total in small pencil footings the debit and credit sides of each account.
2. Strike the difference and list as above.

Correctness of Trial Balance. — A Trial Balance in perfect balance does not indicate absolutely the correctness of our books, as an

error of principle may have been made, or again we might have debited or credited a wrong account. In the event of the Trial Balance not balancing, it proves conclusively that some error has been made, to find which the following tests will be of assistance.

Location of Errors:

1. Ascertain the difference.
2. If the difference be $.10, $1.00, $10.00, $100.00, or $1000.00, etc., look for an error in addition in the Trial Balance; and if not found, test the additions and subtractions of the accounts in the Ledger.
3. If the difference be divisible by two, look for such a figure and see if it were posted to the wrong side.
4. If the difference be divisible by 9, the error may have been one of transposition of figures, as $97.00 for $79.00. In the event of these common tests failing, it is advisable to retrace all the work, checking every entry.

Value of Trial Balance. — The value of the Trial Balance is fourfold:

1. It tests the equilibrium of the Ledger.
2. It assists in detecting errors.
3. It presents a schedule and a balance of all accounts.
4. It is the basis for the various business statements and is a necessary preliminary to the closing of the books.

PROBLEM 16

Present Trial Balance of Problem 12, on page 30.

PROBLEM 17

Present Trial Balance of Problem 13, on page 30.

PROBLEM 18

Present Trial Balance of Problem 14, on page 31.

PROBLEM 19

Present Trial Balance of Problem 15, on page 32.

CHAPTER VI

THE THEORY OF DEBIT AND CREDIT

THE treatment of the subject of debit and credit in Double Entry Bookkeeping up to this time has been entirely from a practical point of view, as is only right and proper, the art of Bookkeeping being one of the most practical. However, the *theory* of debit and credit has a much broader application, and if thoroughly understood, obviates the necessity of rules.

It is easy to say that we make a debit and a credit entry for each transaction which must balance, but let us observe the reason for this statement.

Goods = Proprietorship

Goods Accounts. — By "Goods Accounts" are meant values of any nature either owned by or owed by the proprietor of the business. The Goods Accounts are both positive and negative.

Proprietorship Accounts. — By "Proprietorship Accounts" are meant those accounts which collectively represent the proprietor's interest in the business, or, in other words, the difference between his "positive" and "negative" goods. Thus, if a proprietor commences business, investing $12,000.00 positive value (assets), and $2000.00 negative value (liabilities), we then have the following equation:

Positive Goods − Negative Goods = Proprietorship

or, in figures:

$12000.00 − $2000.00 = $10000.00

or, transposing, we have:

Positive Goods = Negative Goods + Proprietorship

or, in figures:

$12000.00 = $2000.00 + $10000.00

The latter form of equation, which groups the positive values on the left and the negative values on the right, with the resulting proprietorship, is the equation of Double Entry Bookkeeping.

It has become customary to term the left side of the equation debit, and the right side credit. Let us consider how the various transactions that might occur affect the above equation.

First, group the classes of transactions as follows:

1. Pure exchange transactions, involving the exchange of one asset for another, or one liability for another, or the exchange of an asset for a liability, or *vice versa*.
2. Transactions involving a change in assets or liabilities without an exchange (a profit or loss).
3. Transactions involving both of the above classes.

If the proprietor mentioned in the previous equations buys a horse and wagon for $1000.00 without paying for them, the balance remains unchanged. To repeat the original equation:

Positive Goods	=	Negative Goods	+	Proprietorship
$12000.00	=	$2000.00	+	$10000.00

As affected by the above purchase, it is:

Positive Goods	=	Negative Goods	+	Proprietorship
$13000.00	=	$3000.00	+	$10000.00

By this purchase the proprietor has not increased his proprietorship, as he has increased his positive and negative goods in like amount. On the same line of reasoning, if our proprietor sells the horse and wagon for $1000.00 in cash, he simply exchanges equal amounts of positive goods; or if he exchanges all of his negative goods (debts), from Accounts Payable to Notes Payable, he simply exchanges equal amounts of negative goods. In neither instance does he change the equation.

The purchase, and both the exchanges of value mentioned, are classified as exchange transactions.

If, on the other hand, the proprietor receives $200.00 in cash (positive goods) for having placed orders for another firm (in other words, a commission) for which he has not parted with any other positive goods, the equation is changed to:

Positive Goods	=	Negative Goods	+	Proprietorship
$13200.00	=	$3000.00	+	$10200.00

It is plain that the $200.00, coming into the business as it does, is a clear gain; hence, the increased proprietorship.

To illustrate again with another transaction of the same class:

The proprietor pays $100.00 for clerk hire. The resulting equation is:

Positive Goods = Negative Goods + Proprietorship
$13100.00 = $3000.00 + $10100.00

In this instance it is very evident that the business has lost $100.00; hence, the decreased proprietorship.

We see clearly by this time that the positive goods are the assets of a business, the negative goods, the liabilities, and the proprietorship the representation of what the proprietor invests in the business plus his gains and minus his losses.

It is evident that the theory of handling the gains and losses in its most elemental practice simply increases or decreases the proprietor's account. This, however, is impracticable, as it defeats the purpose of bookkeeping in so far as it is not possible at the end of a period to trace how and where we have lost or gained. But the first equations expand to encompass these losses and gains, so that at the end of a period the sources thereof may be ascertained.

Take the original illustrations of the $200.00 gain in commission, and the $100.00 loss in wages. Before considering these the equation is:

Assets = Liabilities + Proprietorship
$13000.00 = $3000.00 + $10000.00

After receiving the $200.00 for commission it is:

Assets = Liabilities + Proprietorship
$13200.00 = $3000.00 + $10200.00

which is the same as:

Assets = Liabilities + Gain + Proprietorship
$13200.00 = $3000.00 + $200.00 + $10000.00

After considering the $100.00 paid to clerks it is:

Assets + Losses = Liabilities + Gain + Proprietorship
$13100.00 + $100.00 = $3000.00 + $200.00 + $10000.00

This clearly illustrates how the equation maintains the losses on the left side and the gains on the right, until such time as it is desirous of collecting them and combining the result with the Proprietor's Account.

The full equation is now as follows:

Assets + Losses = Liabilities + Gains + Proprietorship

As mentioned before, from custom we have come to term the left side of the equation debit, and the right side credit, thereby evolving the complete formula of bookkeeping without recourse to the terms "debit" and "credit." From the above we can now reduce debit and credit principles to the statements that:

Every debit balance is
1. An Asset, or
2. A Loss

Every credit balance is
1. A Liability, or
2. A Gain

CHAPTER VII

THE CHANGE FROM SINGLE ENTRY TO DOUBLE ENTRY BOOKKEEPING

AFTER completing Single Entry the logical step apparently would have been to explain the method of changing a set of books from Single to Double Entry Bookkeeping, but rather than take a step in the dark, we delayed sufficiently to make ourselves acquainted with the principles of Double Entry.

As in Single Entry, a Journal and Ledger are sufficient for Double Entry Bookkeeping. In making the change we must bear in mind that Double Entry Bookkeeping includes Personal, Property, and Nominal Accounts, and not merely the Personal Accounts of Single Entry. Therefore it is necessary to introduce upon our books these other accounts, but in order to incorporate the actual value of the Single Entry business upon the books, it is first necessary to prepare a statement of the assets and liabilities.

We shall take as our illustration the Statement of the Assets and Liabilities of the Alton B. Kirk problem from Chapter III, on Single Entry Bookkeeping, in which chapter the collection of the various assets and liabilities was fully discussed.

Statement

ASSETS			LIABILITIES		
Store and Lot	4600	00	Notes Payable	1500	00
Horse and Wagon	250	00	Acc'ts Payable	100	00
Notes Receivable	1750	00			
Inventory of Mdse.	700	00			
Cash	3286	00	Alton B. Kirk,		
Acc'ts Receivable	1100	00	Present Worth	10086	00
	11686	00		11686	00

From the standpoint of bookkeeping, it is necessary to regard this change in our system as the commencement of a new business,

in so far as we must debit all of the assets which are now responsible to the business for the value they represent, and credit the proprietor, Alton B. Kirk, for the responsibility he has granted. Likewise we debit Alton B. Kirk for the responsibility of having the business acquire the liabilities granted by the credit accounts, Notes Payable and Accounts Payable.

The Journal entry is:

NOVEMBER 1, 1913

	Store and Lot	4600	00		
	Horse and Wagon	250	00		
	Notes Receivable	1750	00		
	Inventory of Merchandise	700	00		
	Cash	3286	00		
	Accounts Receivable	1100	00		
	Alton B. Kirk, Capital			11686	00
	Alton B. Kirk, Capital	1600	00		
	Notes Payable			1500	00
	Accounts Payable			100	00
	Being the entries necessary to incorporate all of the above accounts in Alton B. Kirk's double entry books.				

By means of this Journal entry we have introduced all of the values of the Single Entry set upon our books; as in posting, each of these accounts will be placed upon our Ledger.

It is very evident that the Journal and Ledger of a Single Entry set may readily be converted into Double Entry books, but this has an objection in the handling of the Proprietor's Account. If the old set is retained, the Journal entry is identical, but it is then necessary to make some exceptions in the posting thereof. It is not necessary to post the Accounts Receivable or Accounts Payable, they being already on the books; neither can we post the debit or credit of the proprietor to his account, for his account already contains the present worth of the last period, to which we can now add or subtract only the loss or gain for the period just ended. The balance is then the same as though the debit and credit amounts in the Journal had been posted to a new Proprietor's Account.

It is preferable in considering the illustration to imagine that an entirely new set of books is opened, in which case the whole entry is

posted, including the debit and credit to the proprietor, Alton B. Kirk. A new account then exhibits his present worth.

As to the Accounts Receivable and Accounts Payable, it is a matter of discretion whether they shall be separately listed in the original entry in the Journal, or as a matter of convenience grouped in the entry under the headings "Accounts Receivable" and "Accounts Payable." In either event each and every debtor and creditor must have his separate account in the Ledger, whether posted direct from the Journal or copied from the Single Entry Ledger.

It is very often necessary to change a set of books for a partnership, in which case the principles involved are similar, but the procedure slightly different.

For illustration, let us again resort to the Alton B. Kirk Statement, but in this instance imagine he has two partners, Adam Burns and Samuel Crompton, who share profits and losses in proportion to their investments, which are as follows:

Alton B. Kirk	$5000.00
Adam Burns	3000.00
Samuel Crompton	2000.00

Statement

Assets			Liabilities		
Store and Lot	4600	00	Notes Payable	1500	00
Horse and Wagon	250	00	Accounts Payable	100	00
Notes Receivable	1750	00	Present Worth:		
Invent. of Mdse.	700	00	A. B. Kirk	5043	00
Cash	3286	00	A. Burns	3025	80
Acc'ts Receivable	1100	00	Sam. Crompton	2017	20
	11686	00		11686	00

The difficulty that immediately arises in attempting to apportion the assets and liabilities among the several partners in ratio to their ownership is readily seen. To facilitate this apportionment, recourse is had to the "Capital" Account, whose only purpose is the adjustment of the partners' accounts, and which, after having served its purpose, automatically closes out.

NOVEMBER 1, 1913

		Store and Lot	4600	00		
		Horse and Wagon	250	00		
		Notes Receivable	1750	00		
		Inventory of Merchandise	700	00		
		Cash	3286	00		
		Accounts Receivable	1100	00		
		Capital			11686	00
		Capital	1600	00		
		Notes Payable			1500	00
		Accounts Payable			100	00
		Capital	10086	00		
		Alton B. Kirk			5043	00
		Adam Burns			3025	80
		Samuel Crompton			2017	20

Posting the above to the Capital Account:

Capital

1913 Oct.	1		J	1	1600	00	1913 Oct.	1		J	1	11686	00
	1			1	10086	00							
					11686	00						11686	00

To summarize the discussion, we reduce the entries to formulas.

1. To change the books of an individual from Single to Double Entry Bookkeeping, the following entries are made:

Assets (Debit)
Proprietor (Credit)
Proprietor (Debit)
Liabilities (Credit)

2. To change the books of a partnership from Single to Double Entry Bookkeeping, the following entries are made:

Assets (Debit)
Capital (Credit)
Capital (Debit)
Liabilities (Credit)
Capital (Debit)
Partner A
Partner B } (Credit)
Partner C

We have been working along on the assumption that Double Entry contemplates only the Journal and the Ledger, but it goes without saying that such books as Cash Book, Sales Book, etc., may also be opened.

It is very often the case that after having changed a set of books to Double Entry, certain assets and liabilities are discovered, which, due to the incompleteness of Single Entry, were not disclosed at the time of preparing the Statement of Assets and Liabilities. In such an event, they must be immediately recorded on the books. Take, for example, Notes Payable for $900.00, not considered in the statement.

Capital (Debit)	$900.00	
Notes Payable (Credit)		$900.00

Alton B. Kirk (Debit)	$450.00	
Adam Burns (Debit)	270.00	
Samuel Crompton (Debit)	180.00	
Capital (Credit)		900.00

PROBLEM 20

Change Problem 7, on page 20, from Single to Double Entry.

PROBLEM 21

Change Problem 8, on page 20, from Single to Double Entry.

PROBLEM 22

Change Problem 10, on page 21, from Single to Double Entry.

PROBLEM 23

The following is a Statement of the Assets and Liabilities of R. N. Roberts, who has been keeping his books by Single Entry and desires to make the opening entries necessary to change his books to a Double Entry set.

Statement

Assets			Liabilities		
Cash	6700	00	Notes Payable	1303	00
Notes Receivable	4200	00	L. Hawton	400	00
Merchandise	1650	00	S. Reiner	600	00
Real Estate	2700	00	B. Gilbert	500	00
Tools	350	00			
J. P. Henri	75	00			
H. B. Dawson	125	00			
R. S. Samuels	230	00	Present Worth	13227	00
	16030	00		16030	00

PROBLEM 24

The following is a statement of R. M. Baker, a retail tobacco dealer, whose books have been kept by Single Entry. The books and records show the following facts:

R. M. Baker invested	$ 24000.00
Cash	3750.00
Merchandise on hand	15375.00
Accounts Receivable	14950.00
Fixtures	2040.00
Accounts Payable	3175.00
Notes Payable	2970.00
Merchandise used by R. M. Baker	1125.00

Prepare Statement of Profit and Loss, and make journal entries to change books to a Double Entry set.

PROBLEM 25

E. C. Reeves and R. Pooley, constituting the firm of Reeves & Pooley, have been keeping the books of their firm by a system of Single Entry Bookkeeping, and desire to change them to the Double

Entry system. The partners share profits and losses as follows: E. C. Reeves, 70 %; R. Pooley, 30 %.

The following is an abstract of their affairs to date:

Assets and Liabilities as per Ledger and from Other Sources

E. C. Reeves, Investment	$ 32690.00
R. Pooley, Investment	14010.00
E. C. Reeves, Withdrawals	3500.00
R. Pooley, Withdrawals	500.00
Cash	7200.00
Accounts Payable	9734.00
Accounts Receivable	12455.00
Notes Receivable	2150.00
Real Estate	8400.00
Notes Payable	3366.00
Plant	11200.00
Merchandise	22200.00

Determine the amount of gain or loss of each partner at this date and formulate the Journal entries that are necessary to convert the Single Entry Ledger into a Double Entry Ledger.

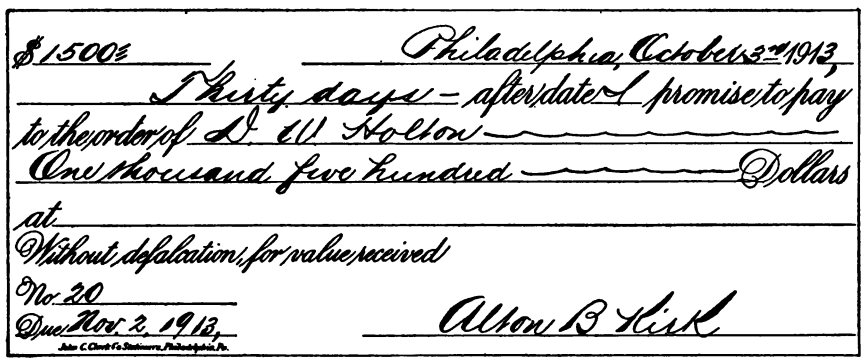
CHAPTER VIII

PROMISSORY NOTES

FROM time to time we have digressed from our general discussion of principle to explain more explicitly the character of the accounts appearing in our Statement of Assets and Liabilities, having already commented on Cash, Merchandise, Accounts Receivable, Accounts Payable, etc. The next items of importance we meet are "Promissory Notes" now familiar to us as "Notes Receivable" and "Notes Payable." There is a third class of written obligation which might appear under our general heading "Promissory Notes," namely, "Accepted Drafts," but as we treat of drafts in a separate chapter we shall eliminate them entirely from our present discussion. Promissory notes, of whatever nature, are recorded either in the Notes Receivable or Notes Payable Accounts.

Promissory Note. — A promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a certain sum in money to, or to the order of, a specified person or to bearer.

A Promissory Note


$1500 Philadelphia, October 3rd 1913,
Thirty days - after date I promise to pay
to the order of D. W. Holton
One thousand five hundred Dollars
at
Without defalcation, for value received
No. 20
Due Nov. 2, 1913,
Alton B Hirk

Parties to a Promissory Note. — There are always two original parties to a note; the one who makes the promise, called the *Maker*

(in this instance, Alton B. Kirk), and the one to whom the promise is made, called the *Payee* (here, D. W. Holton). There may be subsequent parties to the note — third persons to whom the promise is transferred — called the *Indorsees*. Something in addition to the delivery or handing over of the note is essential to a transfer in order to give to the indorsee the absolute right and title to enforce the promise against the maker, viz. an indorsement, or in other words, the signature on the back of the note by the owner, thereafter known as the "Indorser." Thus, in the illustration given, D. W. Holton desires to transfer the note to James Garvin. He may do so by writing on the back of the note:

Pay to the order of James Garvin (Signed) D. W. Holton

or simply write his name:

D. W. Holton

Special Indorsement. — The first, which is called a "Special Indorsement," specifies the person to whom or to whose order the instrument is to be payable, and the indorsement of such indorsee is necessary to the further transfer of the instrument.

Indorsement in Blank. — The second form of indorsement is known as an "Indorsement in Blank." It specifies no indorsee, as in the first instance, and an instrument so indorsed is payable to the holder merely upon delivery. It is common practice, however, for subsequent holders of the note to require the signature of their immediate transferor (Indorser).

Negotiation. — A promissory note is said to be "negotiated" when it is transferred from one person to another in such a manner as to constitute the transferee the holder, with rights similar to those held by the transferor. If payable to bearer, it is negotiated by delivery; if payable to order, it is negotiated by the indorsement of the holder, and completed by delivery.

Requirements of Negotiability. — A promissory note, to be negotiable, must conform to the following requirements:

1. It must be in writing and signed by the maker.
2. It must contain an unconditional promise to pay a certain sum of money. The amount is usually written both in figures and in words, and in case of a difference, the words are taken as correct.
3. It must be made payable on demand or at a fixed or determinable future time, and not on a contingency.
4. It must contain words of negotiability, *i.e.* "to order" or "bearer" or words of similar import.
5. The words "Without Defalcation," meaning that the maker will not contest the note by introducing a counter claim, are not necessary, but are usually inserted.
6. Though a note must be for a legal consideration, the words "Value Received," though customary, are likewise unessential.

Maturity. — By the "maturity" of a note is meant the day when it becomes due.

Purposes of Promissory Notes. — Promissory notes are:

1. Received or given in lieu of cash for the purchase or sale of merchandise.
2. Received or given to balance an open account.
3. A means of acquiring additional capital.

Illustrations of Promissory Notes:

(*a*) Alton B. Kirk purchases from D. W. Holton $1500.00 worth of Merchandise for which he gives Holton a 30-day note.

Merchandise	$1500.00	
Notes Payable		$1500.00

Merchandise is debited because it is responsible for the liability created, and Notes Payable is credited for having granted or shifted its responsibility to Merchandise.

(*b*) Some time in the past H. R. Edlund purchased from Alton B. Kirk $1000.00 worth of Merchandise on account, at which time the entry was:

H. R. Edlund	$1000.00	
Merchandise		$1000.00

Edlund's account was then debited, having assumed the responsi-

bility for that amount to the business. Merchandise was credited for having shifted the responsibility.

Edlund then gave Kirk a note in settlement of his open account. The entry then made was:

Notes Receivable		$1000.00
	H. R. Edlund	$1000.00

Notes Receivable now assumed the responsibility held before by H. R. Edlund; hence the above debit and credit.

The third purpose of promissory notes involves the discussion of Discount, to be treated separately later. For the present it is sufficient to say that in "discounting paper" an individual goes to a bank and offers a promissory note as a means of negotiating a loan. If the bank has confidence in him, it discounts his note, which means that it pays over to him at once the amount called for in the note, less the interest, which is deducted at the time of discount instead of being collected in addition to the principal at the time of payment.

Payment of Promissory Notes. — As was noted in the illustration given above, the Notes Receivable and Notes Payable Accounts, in the manner of their assuming and shifting responsibility, are similar in their treatment to personal accounts, and on the maturity of a note — if it is a notes receivable — the entry is:

Cash	
	Notes Receivable

The cash having now assumed the responsibility granted to it by the notes receivable is debited, and the notes receivable is credited. When a notes payable is paid, the entry is:

Notes Payable	
	Cash

The Notes Payable, being returned to the maker, assumes the responsibility of the departing cash, and the debit and credit are made accordingly.

In every instance in the payment of a note, the instrument is returned to the owner.

Renewals. — When the makers of promissory notes are allowed, at the maturity of the notes, to renew their promises for an additional determinate time, instead of paying their notes, these extensions are known as "Renewals." This involves the making of a new note and the making of the following entries:

1. Debit the person renewing the note and credit Notes Receivable (the old note).

2. Debit Notes Receivable (the new note) and credit the person renewing the note.

In handling promissory notes on the books, an important point to be remembered is that the character of the note never changes; that is to say, once a notes receivable, always a notes receivable — and the same is true in the case of a notes payable. Thus, when a note is received by the business, it is debited as a notes receivable. From this it is seen that the normal condition of the Notes Receivable Account is to show a debit balance, for more notes receivable cannot be returned by the business than were received. Similarly the Notes Payable Account usually shows a credit balance, for more notes payable cannot be returned to the business (debited) when paid than were issued.

It is needless to say that if all notes receivable are paid, the account balances. This is also true of notes payable.

Part Payment. — There are occasions when part payment is made on promissory notes, in which case such payment is noted on the back of the note itself, and Journal entries made as follows:

1. In the case of a notes receivable:

Cash
Notes Receivable
for the amount received,

responsibility having been assumed and shifted to that degree.

2. In the case of a Notes Payable:

Notes Payable
Cash
for the reason given above.

CHAPTER IX

INTEREST AND DISCOUNT

It may safely be said that every business must at some time consider the recording of interest or discount upon its books. If the business receives or issues notes, borrows or lends money, owns mortgages or has mortgages on its property, it necessarily must consider this subject.

Interest is the compensation allowed for the use of money.

Discount is an allowance made in consideration of a debt being paid before it is due.

Thus, we see there is very little difference between the two, both being in fact allowances for the use of money. The definition of interest gives the correct impression that when the principal sum of money which has been used is returned, the compensation for its use, interest, is added thereto. From the definition of discount we see that discount is an allowance or compensation made or deducted from the principal sum of a debt, provided it is paid before it is due. Thus it is but the compensation allowed for the use of money, represented in the debt, for the length of time between the date the money is received and the date such sum is due; but in discount, this sum is deducted at once from the amount of the sum received.

The distinction is that:

A. Interest is paid after the use of money.

B. Discount is paid before the use of the money.

Kinds of Discount. — Discount is commonly divided into three classes:

1. Commercial discount.
2. Bank discount.
3. Merchandise or trade discount.

The definition of discount applies to all three.

Commercial discount or simple discount is the allowance made for notes paid in advance.

Bank discount is the consideration allowed to a bank for the use of money.

Merchandise discount or *trade discount* is a consideration given or received for the payment of bills before they are due. It is a common practice with some firms to urge their customers to make prompt payments by offering the inducement of a discount on bills paid within a given time.

Accounts Necessary. — Interest, commercial discount, and bank discount may be handled on the books in the one account "Interest and Discount," but it is better to separate them and have two distinct accounts, "Interest" and "Discount."

Merchandise or trade discount may be carried in the account "Merchandise Discount," but it is better to separate it and use the two accounts, "Discounts on Purchases" and "Discounts on Sales."

The reason for using two accounts rather than one, as in the instances above, is a desire to prevent certain losses and gains arising in the same class of accounts cancelling each other, thereby cancelling the amount lost and the amount gained. It is important that such facts be not concealed, but that they be brought to the attention of the management through the accounts themselves.

Illustrations. — Let us take illustrations for interest, discount, and merchandise discount.

Interest:

On July 1st, Alton B. Kirk gives Harry W. Smith his 30-day note for $1000.00, with interest at 6%. This note is in settlement of an account. The Journal entry on that date is:

Harry W. Smith	$1000.00	
Notes Payable		$1000.00

On July 31st, when Kirk makes payment, he pays $1005.00, the amount of the note plus the interest. The entry on that date is:

Notes Payable	$1000.00	
Interest	5.00	
Cash		$1005.00

Interest Account is debited for $5.00, as it is responsible for cash having had to give up that amount of its responsibility. Hence, Interest is a nominal account in this case, explaining the decrease of an asset, and is therefore a loss.

Discount:

On July 1st Alton B. Kirk received the 60-day note of James Garvin for $2000.00, in settlement of his account. The entry is:

Notes Receivable	$2000.00	
James Garvin		$2000.00

As Kirk is in need of cash he immediately takes the note to the bank for discount, and the bank gives him its face value, less $20.00, 6% discount for 60 days. The following entry records this transaction:

Cash	$1980.00	
Discount	20.00	
Notes Receivable		$2000.00

Discount, being responsible for the $20.00 loss, is debited.

Merchandise Discount:

Alton B. Kirk purchases from Samuel Dunn, merchandise to the value of $1000.00, on account. Kirk receives a bill which states that it is due in 30 days, but subject to 2% discount if paid within 10 days.

As a purchaser is not always sure that he can take advantage of discounts, it is the practice to record purchases at their purchase price. Hence, Kirk records the purchase as follows:

Merchandise	$1000.00	
Samuel Dunn		$1000.00

On July 10 Kirk decides to take advantage of the discount and sends Samuel Dunn his check for $980.00 in payment of the bill of July 1, making, at the same time, the following entry:

Samuel Dunn	$1000.00	
Cash		$980.00
Mdse. Discount or Discount on Purchases		20.00

Merchandise Discount, or Discount on Purchases, is credited, having granted responsibility to cash by saving $20.00 for the business. Merchandise Discount or Discount on Purchases and Discount on Sales are also nominal accounts, explaining the sources of certain losses and gains to the business.

Discounts. — Discounted commercial paper is known as "Discounts" and is of two classes, single-named paper and double-named paper.

Single-named Paper. — Single-named paper is a note on which one party only is responsible, as in the case of a bank discounting the note of a borrower (the maker).

Double-named Paper. — Double-named paper is a note or an accepted draft on which more than one party is responsible.

This distinction is important, because while it is possible for an individual to borrow from the banks on his own note, banks prefer paper with more than one name, as the security is then naturally greater.

Double-named paper consists of:

1. Notes and drafts coming into one's possession from regular customers.
2. Accommodation paper, on which either the maker or drawee or the indorser has placed his name as an accommodation (not for value received).

Thus "A" may give a note for $1000.00 to "B" as an accommodation, so that "B" can take the note to the bank and discount it; or again, "A" for the same purpose may indorse "B's" note made out to the bank. In either case "A" acts for accommodation, having received no value, though to innocent holders of the note for value he is responsible. In like manner we may have "A" accept as an accommodation a draft drawn on him.

The paper usually preferred by banks is the double-named paper which comes into the possession of the borrower through regular trade.

To ascertain the Interest or Discount. — To ascertain the amount of interest or discount, it is necessary to determine the number of years, months, and days for which the interest is to be calculated.

In the case of interest, the interest term is the actual time the principal has been used.

In the case of discounts, the discount term is the time between the date of discount and the date of maturity, or date when the instrument is due. In computing interest the basis in practice varies between a 30-day month and the actual number of days, but in the case of "discounts" the actual number of days is always considered.

Methods of computing Interest and Discount. — Interest and Discount are computed alike on the mathematical principle:

$$\text{Principal} \times \text{Per cent} \times \text{Time} = \text{Interest.}$$
$$P \times R \times T = \text{Interest.}$$

In computing interest over a long time this formula should be followed; but in computing interest and discount for a shorter time,

some of the shorter methods may be used. Two of the most common methods in use follow.

The Sixty Day Method. — Since 60 days are $\frac{1}{6}$ of a year of 360 days, the interest for 60 days is $\frac{1}{6}$ of the interest for one year. If the interest for one year is 6 %, the interest for 60 days, or $\frac{1}{6}$ of one year, is one per cent. One per cent of any principal, therefore, is the interest on that principal for 60 days, or $\frac{1}{6}$ of one year, at the rate of 6 % per annum. Hence the rule:

To ascertain the interest on any principal sum for 60 days at 6 %, point off two places from the right, of the whole number of dollars.

If the time be more or less than 60 days, and if the rate is not 6 %, this rule may still be applied by proper qualification. To illustrate:

Ascertain the interest on $1000.00 at 5 % for 40 days. By the above rule, $10.00 is the interest at 6 % for 60 days. For 40 days at 6 % it must be $\frac{40}{60}$ or $\frac{2}{3}$ of $10.00, or $6.67. This figure, then, is the interest on $1000 for 40 days at 6 %, hence the interest at 5 % must be $\frac{5}{6}$ of this amount, or $5.56.

That is to say, we always make the basis of our time 60 days, and reckon the interest on that basis. The interest for 80 days, for instance, would be the fraction of $\frac{80}{60}$, or $\frac{4}{3}$, of the interest at 6 % for 60 days. Similarly, whatever the given rate, we compute the interest required with 6 % as a basis. The interest at 7 %, for example, would be $\frac{7}{6}$ of the interest at 6 % for the given number of days.

The Ordinary Day Method. — Since the interest on any principal for one year at 6 % is .06 of that principal, and since the interest for one day is $\frac{1}{360}$ of the interest for one year, it will be seen that the interest for one day is the same as $\frac{.06}{360}$ × the principal. The fraction $\frac{.06}{360}$ may be reduced to $\frac{.001}{6}$, hence the interest for one day on any principal is the principal sum multiplied by .001 and divided by 6, and the interest for any number of days will be the interest for one day multiplied by the number of days desired. To illustrate:

Suppose it is required to find the interest on $1200.00 at 6 % for 40 days. The figuring will be as follows:

```
  $1200.
    .001
 6)1.200
    .200 = Interest on $1200.00 at 6% for 1 day.
      40
 $8.000 = Interest on $1200.00 at 6% for 40 days.
```

The interest at any other rate than 6 % may be found by taking fractional parts of 6 %. Thus, the interest at 7 % in the problem just explained would be $\frac{7}{6}$ of the interest at 6 %. The following rules may be applied: —

1. Find the interest on the principal sum for one day at 6 %.
2. Multiply the interest thus found by the number of days desired.
3. For any interest other than 6 %, multiply the result at 6 % by the fraction of the desired rate over 6.

Other methods of computing interest and discount are used, but since the two short methods given are among the most common, they are all that we need to consider.

Accounts used to designate Various Kinds of Borrowed Money.— Since the subject of interest and discount has to do with the use and acquisition of money, it may be well to mention several methods by which men raise money, and the accounts used to designate such facts on the books.

If a man raises cash by discounting the notes of others in his possession, the entry is a debit to cash and discount and a credit to Notes Receivable, the latter offsetting already existing debits. The person making the discount has no direct liability in this case to record on his books, although he is contingently liable on this note till it is paid; for in the event of the failure of the maker to pay the bank at maturity, he, as indorser, is liable to the bank. The record of such contingent liability is usually neglected, but should be made by an entry such as:

The Maker
Notes Receivable Discounted,

and when such contingent liability is cancelled by the maker paying the bank, a counter entry should be made, as:

Notes Receivable Discounted
The Maker

When an individual borrows on his own note or has it discounted, the entry is, in case of discounts:

Cash
Discount
Notes Payable

Thus Notes Payable Account remains on the books to show the liability.

If the proprietor has given a demand note to the bank for a loan, termed "Call Loan," this fact is better recorded:

Cash
Loan

Loan Account differs from Notes Payable in that Notes Payable Account has a definite date of maturity, while Loan Account designates a liability due on the demand of the bank.

On the other hand, if a proprietor raises money by giving a mortgage on his property, the entry is:

Cash
Mortgage Payable

Mortgage Payable shows a liability secured by a particular property and due at a definite future date. Mortgage Payable is used to distinguish it from Mortgage Receivable, the account used to denote mortgages owned by the business.

Again, if the business raises money by giving a mortgage to a trustee to secure the issuance of bonds, the entry is:

Cash
Bonds

Thus, Bond Account denotes a liability to the holders of such bonds, the terms of which are usually for a longer period than the ordinary mortgage.

PROBLEM 26

QUESTIONS ON NOTES AND INTEREST AND DISCOUNT

A. 1. What is a promissory note?
2. Name the parties to a note.
3. What is negotiability, and what words express it?
4. How is a note transferred? Explain.

B. Journalize the following transactions:

Dec. 1. — Sold Harris P. Lloyd, merchandise on account, $1000.00.

Dec. 2. — Received from Harris P. Lloyd his 30-day note for $1000.00 in settlement of his purchase of the 1st.

Dec. 3. — Indorsed Harris P. Lloyd's note and gave it to L. S. Baines to apply on account.

Dec. 4. — S. Davis indorsed and gave me to apply on his account, John Magee's 30-day note, dated the 1st, in his favor, for $1500.00.

Dec. 5. — L. Harvey gave me his check for an amount sufficient to pay the interest to date on the 6 %-$5000.00 note, issued six months ago.

Dec. 6. — Mailed check to A. P. Williams for an amount sufficient to pay the six months interest at 6 % on the $10,000.00 note given him June 6, and to reduce the principal $8000.00.

Dec. 8. — Received from James Garvin, his 60-day note, dated Dec. 6, for $2000.00, to apply on his account.

Dec. 9. — Took James Garvin's note, received on the 8th, to the bank and had it discounted. Discount rate 6 %.

Dec. 10. — The bank returned the 30-day note of Thomas Cook for $1000.00 which I had discounted on Nov. 28. The maturity date had arrived and Cook failed to pay the note. Make Journal entry to show that I have satisfied the bank for its claim on me as indorser of the note.

C. Distinguish between the accounts "Merchandise Discount" and "Discount" and explain for what reason each is debited or credited.

D. How would you proceed to find the term of discount on a note?

E. Describe the procedure in finding the interest on a note for $2000.00 by the ordinary day method in the following cases:

a. At 6 % for 30 days.
b. At 7 % for 70 days.
c. At $4\frac{1}{2}$ % for 80 days.

CHAPTER X

THE SIX-COLUMN STATEMENT

RETURNING to the definition and objects of bookkeeping, we find it is the art, method, or practice of recording business transactions for the purpose of:

1. Ascertaining the values in, or owing to the business, and the values owed by the business, as represented by the assets and liabilities.
2. Ascertaining the profits and losses and the sources thereof.

Up to this time in Double Entry Bookkeeping we have been dealing only with the recording of the transactions, which we have summarized in the Trial Balance, — a condensed view of the accounts of our business. In the discussion of the Trial Balance we learned that one of its chief services is to act as a basis for the preparation of the various business statements, the purposes of which are to present the assets and liabilities, together with the profits and losses.

These statements assume several forms of presentation, but at this time we shall consider only the Six-Column Statement, which is shown on the following page.

Explanation of Six-Column Statement. — It will be noted, as the name implies, that the Statement is provided with six columns for figures. The first two columns are a reproduction of the Trial Balance, with the exception of the separate personal accounts which have been grouped under the headings "Accounts Receivable" and "Accounts Payable." It is the figures of the first two columns that we extend into the remaining four columns, the first two of which represent the losses and profits, and the last two the assets and liabilities.

In addition to the facts given in the Trial Balance, it is necessary to consider certain supplementary figures to be obtained outside of the books, and indicated in the Statement to be marked in *red ink* figures.

Six-Column Statement

ALTON B. KIRK — OCTOBER 8, 1913

	Dr.	Cr.	Loss	Profit	Assets	Liabilities
Alton B. Kirk, Capital		9925 00				
Store and Lot	4600 00				4600 00	
Horse and Wagon	250 00				250 00	
Cash	3286 00				3286 00	
Notes Receivable	1750 00				1750 00	
Acc'ts Receivable	1100 00				1100 00	
Merchandise	400 00			300 00	700 00*	
Expense	139 00		139 00			
Notes Payable		1500 00				1500 00
Accounts Payable		100 00				100 00
	11525 00	11525 00	139 00	300 00	11686 00	1600 00
Net Gain *			161 00*			
			300 00	300 00		
Alton B. Kirk, Net Credit		9925 00				
Alton B. Kirk, Net Gain		161 00				
Alton B. Kirk, Present Worth						10086 00
					11686 00	11686 00

*In red ink.

Let us consider each extension in the illustration separately. To do this intelligently, the distinction between Nominal Accounts (profit and loss) and Financial Accounts (assets and liabilities) must be kept in mind.

1. Alton B. Kirk's account is not extended, since it is neither a loss, profit, asset, or liability. This account may be considered a liability, as it represents an obligation of the business to its proprietor; but in a statement of this sort we regard only liabilities to third parties.

2. Store and Lot, representing value in the business, is an asset, and is extended to the asset column.

3. Horse and Wagon (Illustration 2).

4. Cash
5. Notes Receivable } similar to Illustrations 2 and 3.

6. Accounts Receivable, representing the sum of the debts owed to the business, is an asset; hence it is extended to the asset column.

7. The Merchandise Account is peculiar in that it combines the characteristics of both a Financial and Nominal Account. The $400.00 in the debit column represents a debit balance or excess of debits over credits in this account in the Ledger. By debits to Merchandise we record purchases; and by credits, sales. This $400.00 debit balance represents the excess value paid for the goods over the value received from the sales. Without considering any other element it appears that we have suffered a loss of this amount, but this is true only on the presumption that we have sold our entire stock of goods. It is therefore necessary to ascertain the value of the goods on hand (take an inventory at cost price), which amount is found to be $700.00; and since it is value in the business, it is treated as an asset. By the presumption above, there is a loss of $400.00 due to our considering that there is no stock on hand; but since the inventory reveals $700.00 worth of stock on hand, it follows that there is in reality a gain of $300.00. Recording the above facts on the Statement, the $700.00 inventory is extended in the asset column in red ink, as it is a supplementary fact, obtained aside from the books; and the $300.00 gain is extended in the profit column.

Another explanation of the above is: Mr. A. purchases during a period $2000.00 worth of merchandise, and his sales register $1600.00. The Ledger entries are as follows:

Merchandise

				2000	00						1600	00	

If Mr. A. has sold all his stock, there is a loss of $400.00. On the other hand, if he has an inventory of $700.00 taken at cost price, then he has sold $1300.00 worth of his goods, or the $2000.00 worth purchased, less the $700.00 worth on hand. The $1300.00 worth of Merchandise has been sold for $1600.00; hence there is a gain of $300.00.

8. Expense is a Nominal Account, and is therefore either a loss or a gain; but as it appears as a debit in our Trial Balance it necessarily follows from our theory of debit and credit that it is a loss, and is extended to the loss column.

9. Notes Payable, which represents value owed by the business, is extended to the liability column.

10. Accounts Payable, which represents the sum of the creditors' accounts, is placed in the liability column.

Having made the extensions, we now complete the Statement. First, we total all the columns. The first two, "DR." and "CR.," balance, being a repetition of our Trial Balance. The difference between the totals of the loss and gain column is necessarily the net loss or gain, and is indicated in red ink to make it more conspicuous. The treatment of these two columns in the illustration explains the principle of bookkeeping, that we never subtract the lesser from the greater side to find the difference, but add to the lesser side the difference to make it equal the greater. This same principle is adhered to in balancing the accounts in the Ledger.

The results in the Statement may be tested by means of a valuable check, provided within the Statement itself. After finding the net gain, the proprietor's net credit, which represents the proprietor's present worth at the end of the last period, plus or minus any withdrawals or additional investments of capital, is inserted in the lower left side of the Statement. In this case Alton B. Kirk's past present worth was his original investment of $10,000.00, which, minus a withdrawal of $75.00, leaves a net credit of $9925.00. To this net credit amount there has been added the gain of $161.00, and the result is the proprietor's present worth. Reduced to a formula it is:

Net Credit + Net Gain (or − Net Loss) = Present Worth

In several earlier instances, we proved that:

Assets − Liabilities = Present Worth

or

Assets = Liabilities + Present Worth

So the amount resulting from the addition of the net credit, $9925.00, and the net gain, $161.00, must be the amount which when added to the liabilities makes that column equal the asset column. Referring then to our Statement, we see that the sum of the net credit and net gain is extended directly under the liability column, where it causes the last two columns, assets and liabilities, to balance. We have now checked our present worth and proved the Statement correct, in so far as it is possible. Even though the Statement checks, we cannot be absolutely sure that some error of principle has not been made, or that the amounts of the supplementary facts are correct, for accuracy depends upon careful work.

Value of Six-Column Statement. — The chief value of the Six-Column Statement is not as an instrument of service in business practice, but rather as a teaching force in distinguishing between Financial and Nominal Accounts. It is upon the principles exhibited in the Six-Column Statement that the practical Statements subsequently to be considered are based.

PROBLEM 27

From the following Trial Balance of W. N. Smith, prepare a Six-Column Statement.

Trial Balance

	W. N. Smith, Capital			50000	00
	Cash	10050	00		
	Land	15000	00		
	Buildings	10000	00		
	Accounts Receivable	7650	00		
	Accounts Payable			9750	00
	Notes Receivable	8700	00		
	Notes Payable			1750	00
	Machinery	7500	00		
	Rent			1400	00
	Merchandise	4000	00		
		62900	00	62900	00

The inventory of merchandise on hand is $1750.00.

PROBLEM 28

From the following Trial Balance of B. N. Fullar, prepare a Six-Column Statement.

Trial Balance

1	B. N. Fullar, Capital			40000	00
2	Cash	6050	00		
3	Land	5000	00		
4	Buildings	16000	00		
5	Notes Receivable	7600	00		
6	Notes Payable			650	00
7	Accounts Receivable	6500	00		
8	Accounts Payable			8600	00
9	Merchandise	8000	00		
10	Commission	100	00		
11	Rent			2000	00
12	Machinery	2000	00		
		51250	00	51250	00

The inventory of merchandise is $3504.22.

PROBLEM 29

From the following Trial Balance of W. W. Lake, prepare a Six-Column Statement.

Trial Balance

W. W. Lake — December 31, 1913

	W. W. Lake, Capital			49500	00
	Cash	9225	37		
	Land	12000	00		
	Expense	4287	50		
	Interest	60	75		
	Rent	3000	00		
	Buildings	10000	00		
	Commission			3500	00
	Merchandise	6000	00		
	Accounts Receivable	14200	00		
	Notes Receivable	7450	75		
	Accounts Payable			8761	47
	Notes Payable			7462	90
	Machinery	3000	00		
		69224	37	69224	37

The inventory of merchandise, Dec. 31, 1913, is $12,565.23.

CHAPTER XI

CLOSING A SET OF BOOKS

THE Statement which was discussed in the last chapter is one that can be taken at any time at the request of the proprietor, without involving the necessity of making any entries in the books themselves. However, it is the policy of the modern mercantile establishment to record and summarize upon its books at least once a year, and usually not more than twice a year, the facts as expressed in a comprehensive Statement for the entire period. This procedure is termed "Closing the Books."

The reason for so doing is to reduce the Nominal (Profit and Loss) Accounts to a net result in the "Profit and Loss" Account, so that the net balance therein revealed may be taken to and included in the Proprietor's Account, thus revealing at the end of any fiscal period the present worth of the proprietor in his own account. This results in the Nominal Accounts on the books being closed, thus permitting them to start afresh in the new period; and this process being repeated from period to period furnishes a basis for valuable comparison.

Procedure in Closing a Set of Books. — There are several distinct steps which are necessary in the closing of the books, and these are as follows:

1. Take a Trial Balance.
2. Collect supplementary facts, such as merchandise inventory, etc.
3. Introduce the supplementary facts upon the books by means of Journal entries.
4. Close the Nominal Accounts by Journal entry into the Profit and Loss Account.
5. Close the balance of Profit and Loss by Journal entry into the Proprietor's Account.
6. Rule and bring down the balance of the Financial Accounts.
7. Take a new Trial Balance.

The following is a Trial Balance of the books we are to close:

Trial Balance

	Proprietor			50000	00
	Cash	15000	00		
	Notes Receivable	20000	00		
	Notes Payable			10000	00
	Expense	1000	00		
	Commission			400	00
	T. Smith	5000	00		
	J. King	6000	00		
	L. Schwartz	4080	00		
	H. B. Denny			450	00
	S. P. Clothier			550	00
	Merchandise	1380	00		
	Real Estate	9000	00		
	Interest			160	00
	Taxes	100	00		
		61560	00	61560	00

The only supplementary fact in this problem is the inventory of merchandise of $2000, for which the entry is as follows:

Inventory	$2000.00	
Merchandise		$2000.00

Inventory has been debited because it is responsible for $2000.00 granted to it by the Merchandise Account.

Profit and Loss Account. — The next step is to select the nominal accounts whose balances are to be transferred by means of Journal entries to the Profit and Loss Account. This is a temporary, collective account gathering within itself the balances of all nominal accounts that it may produce the resultant net loss or gain, which can be tranferred in one amount to the Proprietor's Account.

Profit and Loss	$1000.00	
Expense		$1000.00
Loss due to Expense		
Commission	400.00	
Profit and Loss		400.00
Gain due to Commission		
Merchandise	620.00	
Profit and Loss		620.00
Gain due to Merchandise		

NOTE. — This entry is made after having posted the inventory entry to Merchandise, as the profit or loss of this account cannot be obtained without first having introduced the inventory.

Interest	$160.00		
Profit and Loss			$160.00
Gain due to Interest			
Profit and Loss	100.00		
Taxes			100.00
Loss due to Taxes			

All the entries necessary to close our Nominal Accounts into Profit and Loss have now been made, and when posted, leave that account with a credit balance of $80.00. Since the Profit and Loss Account is but a collection of the balances of the various Nominal Accounts, it is in itself a Nominal Account; and a credit balance must necessarily be the net gain for the entire business. This gain of $80.00 directly affects the Proprietor's Account, in that it increases his interest in the business to that extent; hence, this amount must be shown in his account. This is accomplished by the following Journal entry:

Profit and Loss	$80.00	
Proprietor		$80.00
Transfer of Net Gain to the Proprietor's Account		

All the accounts in the Ledger have now been closed, with the exception of the Proprietor's Account and the Financial Accounts. These must remain open, as each Financial Account is representative of so much value, either in or owed to or by the business; and the Proprietor's Account is the concrete expression of the ownership of these assets and liabilities.

While these accounts cannot be closed, it is advantageous to rule and balance them, in order to commence the new period with but one debit or credit amount as a balance in each of these accounts.

Proprietor

1913 * Oct.	* 14	Present Worth *		50080	* 00	1913 Oct.	1	J	1	50000	00
							14		11	80	00
				50080	00					50080	00
						Oct.	14	Present Worth		50080	00

* In red ink

Expense

1918 Oct.	1		J	1	100	00	1918 Oct.	14		J	11	1000	00
	2			1	300	00							
	3			2	350	00							
	4			3	250	00							
					1000	00							
					1000	00						1000	00

Commission

1918 Oct.	1		J	1	100	00	1918 Oct.	3		J	2	650	00
	2			1	150	00							
	14			11	400	00							
					650	00						650	00

Merchandise Inventory

1918 Oct.	14		J	11	2000	00							

Cash

1918 Oct.	1		J	1	12000	00	1918 Oct.	4		J	3	16000	00
	2			1	6000	00		5			4	7000	00
	4			3	20000	00		6			4	6000	00
	5			4	6500	00		6			5	4000	00
	6			4	3500	00						33000	00
					48000	00	Oct.	14*	Balance *			15000	00*
					48000	00						48000	00
Oct.	14	Balance			15000	00							

* In red ink.

Notes Receivable

1913							1913						
Oct.	5		J	4	30000	00	Oct.	13		J	12	30000	00
	6			4	20000	00	Oct.	14*	Balance *			20000	00*
					50000	00							
					50000	00						50000	00
Oct.	14	Balance			20000	00							

* In red ink.

Interest

1913							1913						
Oct.	10		J	6	50	00	Oct.	11		J	6	310	00
	12			6	100	00							
					150	00							
	14			11	160	00							
					310	00						310	00

Taxes

1913							1913						
Oct.	4		J	4	100	00	Oct.	14		J	11	100	00

Merchandise

1913							1913						
Oct.	1		J	1	9120	00	Oct.	3		J	2	14200	00
	1			1	17650	00		4			4	8060	00
	2			1	13350	00		4			4	2040	00
	3			2	1500	00		5			6	760	00
	4			5	2500	00		14			10	17680	00
					44120	00						427400	00
	14			11	620	00		14			11	2000	00
					44740	00						44740	00

Notes Payable

1913							1913						
Oct.	10		J	6	4000	00	Oct.	3		J	1	4000	00
Oct.	14*	Balance*			10000	00*		3			2	6000	00
								4			2	4000	00
												14000	00
					14000	00						14000	00
							Oct.	14	Balance			10000	00

* In red ink.

L. Schwartz

1913							1913						
Oct.	6		J	4	4000	00	Oct.	7		J	5	7080	00
	7			5	80	00		10			6	2020	00
	7			6	3000	00						9100	00
	8			6	2020	00							
	9			6	2080	00							
	10			6	2000	00	Oct.	14*	Balance*			4080	00*
					13180	00							
					13180	00						13180	00
Oct.	14	Balance			4080	00							

* In red ink.

Profit and Loss

1918							1918						
Oct.	14		J	11	1000	00	Oct.	14		J	11	400	00
	14			11	100	00		14			11	620	00
	14			11	80	00		14			11	160	00
					1180	00						1180	00

A glance at Cash, Notes Payable, L. Schwartz, Notes Receivable, or the Proprietor's Account, will illustrate the method of balancing a Financial Account. It will be noted that the debit or credit difference in any of these accounts has been placed on the lesser side indicated to be marked in red ink, to show clearly that this amount is an insert and not an entry through the Journal. Each red ink amount has been brought down below the final rulings on the opposite side of the account in black ink, as a red ink figure simply denotes the excess of the other side. This principle of balancing accounts may be used at any time, whenever an account becomes unwieldy by virtue of an excessive number of debits or credits; and in order to preserve the balance of the Ledger the red ink amount must always be brought down on the other side.

While we closed the Merchandise Account and left the Inventory Account with a debit balance of $2000.00, representing the goods on hand, it is customary, after closing the accounts and ascertaining the present worth of the proprietor, to transfer this debit balance of Inventory to the Merchandise Account. As this is now the beginning of a new period, the amount of goods on hand, in its relation to the Merchandise Account, stands as a new purchase. The entry is:

Merchandise	$2000.00	
Inventory		$2000.00

The posting of this entry closes the Inventory Account.

What is known as a proof Trial Balance is now taken from the Ledger. It is, in fact, a Statement of Assets and Liabilities, as the nominal accounts have all been closed. This same Statement will subsequently be termed a *Balance Sheet*, but at this time it is used merely to test the balance of the Ledger after closing.

Proof Trial Balance

Cash	15000	00	Notes Payable	10000	00
Notes Receivable	20000	00	H. B. Denny	450	00
Merchandise	2000	00	S. P. Clothier	550	00
Real Estate	9000	00			
L. Schwartz	4080	00			
T. Smith	5000	00			
J. King	6000	00	Proprietor	50080	00
	61080	00		61080	00

NOTE. — When this Statement is used as a Balance Sheet, it is customary to group the personal accounts under the headings "Accounts Receivable" and "Accounts Payable."

In making closing entries it is not necessary to make a separate entry for each Loss and Gain Account, as all the losses may be combined in one entry, and similarly, all the gains combined in one entry. Thus, a proper entry is:

Profit and Loss	$2000.00	
Rent		$500.00
Commission		400.00
Interest		100.00
Expense		1000.00
Closing of the losses into Profit and Loss Account		

PROBLEM 30

From the following Trial Balance prepare a Six-Column Statement; also Journal entries necessary to close this set of books.

Trial Balance

		Dr.		Cr.	
1	Proprietor			50000	00
2	Cash	10500	00		
3	~~Merchandise~~	8640	22		
4	Land	7000	00		
5	Buildings	15000	00		
6	Accounts Receivable	7030	24		
7	Accounts Payable			3850	69
8	Notes Receivable	703	00		
9	Notes Payable			2942	00
10	Machinery	6000	00		
11	Tools	1000	00		
12	Commission	132	00		
13	Interest	43	02		
14	Expense	744	21		
		56792	69	56792	69

The inventory of merchandise is $7240.03.

PROBLEM 31

From the following Trial Balance prepare a Six-Column Statement, at the same time making the Journal entries necessary to close the books.

Trial Balance

W. S. Jamison, Capital			60000	00
W. S. Jamison, Personal	2000	00		
Cash	12750	25		
Real Estate	20000	00		
Furniture and Fixtures	3250	00		
Expense	9500	75		
Interest	137	50		
Rent	1100	00		
Storage			600	50
Commission			2600	00
Notes Receivable	1500	00		
Accounts Receivable	19540	84		
Notes Payable			7500	34
Accounts Payable			19762	16
Merchandise	5683	66		
Machinery	15000	00		
	90463	00	90463	00

Merchandise inventory, at end of year, $12,640.34.

PROBLEM 32

From the following Trial Balance, present the Six-Column Statement, making at the same time the Journal entries necessary to close the books.

Trial Balance

	Cash	4200	00		
	Accounts Receivable	9700	00		
	Accounts Payable			6000	00
	Notes Receivable	1200	00		
	Notes Payable			5419	00
	Merchandise	4700	00		
	Rent			3000	00
	Interest			250	00
	Commissions	3750	00		
	Real Estate	15000	00		
	Furniture and Fixtures	2500	00		
	Machinery	8200	00		
	Discount	17	00		
	Expense	402	00		
	Harris, Investment			15000	00
	Goldsmith, Investment			20000	00
		49669	00	49669	00

Merchandise inventory, $3350.00.

PROBLEM 33

You are required to keep the following set of books for J. M. Harris, who is starting in the retail coal business; to give Mr. Harris a Statement at the end of the two-week period in the form of a Six-Column Statement; and to close the books.

Jan. 1, 1913.—J. M. Harris invests cash in the retail coal business, $12000.00.

Jan. 2, 1913.—Paid one month's rent for coal yard, in advance, $200.00. Purchase for cash, pea coal, $5000.00.

Jan. 3, 1913.—Purchase two horses and wagons (Horse & Wagon Account) for delivery service, paying for them in cash, $800.00.

Jan. 4, 1913.—Purchase from Phœnix Coal Co., on account, nut coal, $5000.00.

Jan. 5, 1913.—Sell Globe Mfg. Co., on account, coal, $750.00.

Jan. 6, 1913.—Give Phœnix Coal Co. 30-day note to settle account. Pay drivers and bookkeeper, $50.00.

Jan. 8, 1913.—Sell Keystone Supply Co. $2000.00 worth of coal. Receive 30-day note in payment.

Discount above note at the bank. Discount rate is 6 %.

Jan. 9, 1913.—Mail to L. Harwood check for $20.00, as commission for selling coal to Keystone Supply Co.

Jan. 10, 1913.—Sell Randall & Co. $4000.00 worth of coal. Receive cash $1000.00, and 30-day note for $2000.00, balance on account.

Jan. 11, 1913.—Pay for repairs to one of the wagons, $25.00.

Jan. 12, 1913.—Buy from Phœnix Coal Co., on account, $2000.00 worth of coal.

Buy from Stationery Supply Co., on account, new books and stationery, $75.00.

Jan. 13, 1913.—Sell J. R. Wood Co., on account, $1200.00 worth of coal.

In response to a request, the business takes up its note given to Phœnix Coal Co., on Jan. 6, less $18.75 for discount.

Pay weekly wages of drivers and bookkeeper, $50.00.

NOTE. — The horses and wagons are estimated to be worth $50.00 less than cost, and the Expense Account shows an inventory of $100.00, due to two weeks' unexpired rent. Merchandise inventory is $4250.00.

CHAPTER XII

THE CASH BOOK

THUS far in making original entries we have used only the Journal, in which book we have recorded transactions involving:

1. Receipts and expenditures of cash.
2. The purchase and sale of merchandise, or other commodities.
3. Promissory notes.
4. Expenses of the business.
5. Adjustment of accounts.
6. Closing entries.

Inadequacy of the Journal. — The ability of the Journal to cope with all these transactions is commensurate with the volume of the business. There comes a time when the increase in business makes it a physical impossibility for one man to record in one book all of these transactions.

Other Books Required. — It was found that the ordinary business transactions could be classified under the above six headings; further, that there were sufficient transactions under headings 1, 2, and 3 to warrant the use of separate books for their entry. The books resulting from this classification came to be known as:

1. The Cash Book.
2. The Sales Book.
3. The Purchase Book.
4. The Bill Book.

The Cash Book. — The handling of cash involves its receipt and expenditure; and after removing the cash transactions from the general Journal, we may go a step further and divide our Cash Book so as to provide on the left page for receipts, and on the right page for payments. This segregation of cash receipts and cash payments is permissible, since all cash receipts are debits and all cash payments, credits. So much for the cash itself, but it must be understood that each page is a Cash Journal complete in itself, since each page applies the principles of debit and credit.

Take for example the Cash Book shown on pages 80 and 81.

It will be noted that the various debits (receipts) have been listed on the left page of the Cash Book and the credits (payments) on the right page in columns provided for that purpose. At the same time, in the Account Column on the left page appear the several accounts which have shifted their responsibility to Cash as it came into the business; hence each of these several accounts is a credit, the debit for which is always Cash. On the right page in the Account Column appear the accounts which have been responsible for cash going out of the business; hence each of these accounts is a debit, the credit for which is always Cash. Thus, every entry in this book comprises in itself a debit and a credit.

Summary of Cash Book Principles. — The above principles may be summarized as follows:

1. To place an amount in the debit column automatically debits cash.
2. To place the name of an account on the left side of this book in itself credits that account.
3. To place an amount in the credit column automatically credits cash.
4. To place the name of an account on the right side of this book in itself debits that account.

Explanation of the Cash Book Entries:

On Jan. 1, Alton B. Kirk invests $5000.00 in the business; hence Cash is debited and Alton B. Kirk credited.

On Jan. 1, $100.00 is paid for rent of store for one month; hence Expense is debited and Cash is credited.

On Jan. 2, $100.00 worth of Merchandise is sold to D. W. Holton for cash; hence Cash is debited and Merchandise is credited.

On Jan. 4, James Garvin pays his bill of the 2d inst. for $400.00; hence Cash is debited and James Garvin credited.

On Jan. 6, P. D. Dolan's bill of the 1st for $200.00 is paid; hence P. D. Dolan is debited and Cash is credited.

On Jan. 5, Alton B. Kirk discounts his 60-day note for $600.00 at his bank; receiving in cash $594.00, this amount being the face of the note less the discount. If we had no Cash Book the entry for this transaction would be:

Cash	$594.00		
Discount	6.00		
		Notes Payable	$600.00

Cash Book

Cash Debits

Date		L.F.	Account	Explanation	Debit			
1913								
Jan.	1		Alton B. Kirk	Investment	5000	00		
	2		Merchandise	To D. W. Holton	100	00		
	4		James Garvin	Paid bill of 1st	400	00		
	5		Notes Payable	Discounted our note	600	00		
	6		Notes Receivable	C. B. Lyons' note	700	00		
	8		Merchandise	To H. C. Clarke	300	00		
	10		Discount	On note to Smith	2	00		
	11		Mdse. Discount	M. A. Ellis' bill	2	00		
			Cash Debit				7104	00
							7104	00
Jan.	12		Balance				4108	00
	12		Merchandise	To D. W. Holton	100	00		
	15		James Garvin	Paid bill of 10th	200	00		
	16		Merchandise	To C. B. Lyons	400	00		
			Cash Debit				700	00

Cash Book

Cash Credits

Date		L.F.	Account	Explanation	Credit			
1913								
Jan.	1		Expense	Rent, one month	100	00		
	2		Merchandise	From H. Bliss	2200	00		
	5		Discount	On our note	6	00		
	6		P. D. Dolan	Paid our bill of 1st	200	00		
	8		M. A. Ellis	Paid our bill of 2d	190	00		
	10		Notes Payable	To N. Smith	200	00		
	11		M. A. Ellis	Bill of 3d	100	00		
			Cash Credit				2996	00
			Balance *				4108	00*
							7104	00

* In red ink

This is the entry which must be made through the Cash Book; but we cannot debit cash and credit notes payable in the Cash Book for $594.00, as this would be a violation of the rule that promissory notes must be recorded at their face value. Therefore, to keep within our principles, and at the same time make a true entry in the Cash Book, we record the receipt of $600.00 from notes payable on the debit side and credit the payment of $6.00 for discount on the credit side, thereby showing the net result of $594.00, the cash actually received.

Posting. — The procedure to be followed in closing the Cash Book is to credit in the Ledger each individual account appearing on the debit side; and the offsetting debits, instead of being posted in detail to the cash account, are posted in total, designated in the illustration as "cash debit." The folio column is used similarly to that of the Journal.

On the credit side of the books the procedure is to debit in the Ledger each individual account; and the offsetting credits to cash are posted to the Cash Account in the Ledger in total, designated in the illustration as "Cash Credit."

The balancing of the Cash Book, which may be done as occasion requires, is similar to the balancing of an account in the Ledger. Care should be taken, however, in bringing the balance down to the opposite side, as it must be placed in the second money column so that it will not be again posted to the Ledger. By posting our total debits and credits of the Cash Book to the Ledger account "Cash," it now reveals the same balance as the Cash Book; and future postings to the Cash Account in the Ledger must be only for new receipts and payments.

Advantages of the Cash Book. — The advantages of the Cash Book are as follows:

1. Relieves the general Journal.
2. Facilitates the original entries for cash.
3. Readily reveals a balance when wanted without the necessity of posting.
4. Facilitates posting in that but one debit and one credit to cash need be posted.

CHAPTER XIII

THE SALES BOOK

The Sales Book. — The necessity of relieving the Journal of its volume of entries was explained in the last chapter, which introduced the Cash Book. The next relief found to be necessary was the separation from the Journal of all transactions involving the sale of Merchandise. These in turn have been placed in a separate book, the Sales Book, a page of which follows:

Sales Book

JULY 1, 1913

	Hemphill & Collins, net 30 days					
	100 bu. Potatoes	@ $ .60	60	00		
	50 cr. Peaches	2.00	100	00		
	25 cr. Plums	2.25	56	25	216	25
	2					
	Hays & Miller, 2/10; net 30 days					
	20 bu. Onions	@ $ .50	10	00		
	40 bu. Potatoes	.62	24	80		
	5 cr. Peaches	2.25	11	25	46	05
	3					
	H. B. Bains, 2/10; net 30 days					
	10 bx. Oranges	@ $4.00	40	00		
	10 bx. Lemons	3.00	30	00		
	25 cr. Peaches	2.00	50	00		
	10 cr. Plums	2.05	21	50	141	50
	4					
	Hopwood & Co., net 30 days					
	250 bu. Potatoes	@ $ .55	140	25		
	40 bu. Onions	.48	19	20	159	45
√	Cash					
	60 bu. Potatoes	@ $ .65	39	00		
	10 bu. Onions	.50	5	00		
	2 cr. Peaches	2.50	5	00		
	2 cr. Plums	2.75	5	50		
	1 bx. Oranges	4.50	4	50		
	2 bx. Lemons	3.50	7	00	66	00
	Merchandise Credit				629	25

Explanation. — Heretofore in the Journal every sale of merchandise has been recorded as a credit to the Merchandise Account; and it is this fact which permits the grouping of merchandise sales in one book, when, by recording the amount of the sale in the money column, we register a credit to the Merchandise Account, the debit for which is the customer.

It will be noted that after each customer's name the terms of the sale are given. For instance, in the sale on July 2 to Hays & Miller the terms are 2/10, net 30 days, meaning that if the bill is paid within ten days 2% discount will be allowed; otherwise the bill will be due for the full amount at the end of thirty days. Such terms are a matter of agreement between customer and seller.

Another common practice is to place the address of the purchaser on the line below his name. This is done only in cases where the customer is new to the firm, or where his address is outside of the city.

The first four sales need no further explanation, as they are simply a listing of the goods sold, with a detail of prices, the names of the purchasers, and the terms of sale.

The fifth transaction, a sale for cash, is somewhat different in its nature. It represents the sale of merchandise for cash to one or several persons on that day; and being a cash transaction, ordinarily appears only in the Cash Book. However, it is the purpose of the Sales Book to reveal at any time the volume of the sales, so it is necessary that cash sales appear in the Sales Book as well as in the Cash Book. The Cash debit, however, is posted only from the Cash Book, and the Merchandise credit from the Sales Book. To do this we list the cash sales in the Sales Book, thereby automatically crediting Merchandise; and the name of the account to be debited, Cash, is checked, so that it will not be posted from the Sales Book. The $66.00 is now entered on the debit side of the Cash Book, being the amount of cash received from cash sales, thereby automatically debiting Cash; and the account seemingly to be credited from the Cash Book, Merchandise, is checked (√) so that it will not be posted. Thus:

Cash Debit

July	4	√	Merchandise	Cash Sales	66	00		

Another method often advanced for the handling of such sales is to debit in the Sales Book each customer making a cash purchase, and then immediately to debit Cash in the Cash Book and credit the individual customer's account. This is good procedure if our cash sales are made to customers who ordinarily purchased on account, so as to show in their accounts the volume of business with them; but as such is seldom the case, and as it is against practice to open useless accounts in the Ledger, this method may be discarded.

The customary method of handling these cash sales is to keep a record of them in a supplementary book termed "Cash Sales Book," entering each cash sale as it is made, and then at the end of the day transferring the totals of this book to our Sales Book, and entering the total cash receipts from such sales in the Cash Book.

This illustration of cash sales has been taken from the standpoint of a retailer. If our illustration were the books of a wholesaler, we might find no use for a "Cash Sales Book," as "cash sales" in a large business often means five to ten days for payment. Accordingly, even for this short period, the sale is on account, and is charged to the account of the purchaser.

Posting of the Sales Book. — From the Sales Book every customer is debited in his account in the Ledger for the amount opposite his name, the corresponding credit being made to the Merchandise Account in the Ledger for the total sales, as expressed in the illustration, "merchandise credit."

As the Sales Book continues from page to page, each page is totaled, and opposite the total is written "Forward," this amount being taken to the top of the next page, where it is expressed "Brought forward," so that at any time, without difficulty, we can ascertain the amount of sales to be posted to the Merchandise Account in the Ledger, as a credit.

Return of Goods Sold. — When an entire sale, or part of a sale of merchandise is returned because of a difference in price, or through failure of the goods to meet the standard desired, an entry is made debiting Merchandise, which again takes on responsibility, and crediting the original purchaser with the amount returned. This being an adjustment, the entry is made in the Journal.

Allowances on Sales. — When an allowance is made to a customer on some particular sale, an entry is made inthe Journal debiting "Allowance" Account and crediting the customer. Allowance Account in this case represents the amount of credit given a cus-

tomer because of some inferiority in the goods, or for other causes, and is debited because it is responsible for the value which was credited to the customer's account. This is a Nominal Account, whose balance is a loss.

Advantages of the Sales Book. —The advantages of the Sales Book are as follows:

1. Relieves the general Journal.
2. Facilitates the recording of Sales transactions.
3. Readily reveals the volume of sales.
4. Facilitates posting, in that only one credit to Merchandise need be posted.

CHAPTER XIV

THE PURCHASE BOOK

The Purchase Book. — Just as the merchandise sales were taken from the general Journal and grouped in the Sales Book, so may all merchandise purchases be removed and grouped in a separate book, the Purchase Book.

As each purchase of merchandise necessarily causes that account to assume responsibility, the Purchase Book is nothing more than a Purchase Journal for the recording of Merchandise debits for all purchases.

The following is a page of a Purchase Book:

Purchase Book

JULY 1, 1913

	Hartley & Meade 2/10, net 60 days 201 Produce Ave., N. Y.					
	200 bu. Potatoes	@ $ .45	90	00		
	180 bu. Onions	.40	72	00	162	00
	Williams & Walker, net 10 days					
	300 cr. Peaches	@ $1.75	525	00		
	150 cr. Plums	1.85	277	50		
	50 bx. Oranges	4.00	200	00		
	40 bx. Lemons	3.00	120	00	1122	50
	2					
	E. S. Winthrop, 30 days					
	100 bu. Potatoes	@ $ .46	46	00		
	50 bu. Onions	.40	20	00	66	00
	Merchandise Debit				1350	50

Explanation. — The names of the various creditors, the terms of the purchase, the address, if it is not already well known, and the details of the purchase and price have all been listed in the Purchase Book, similar to the listing of sales in the Sales Book.

If cash purchases are made, the procedure is based on the same principle as provided for the handling of cash sales. If sufficient cash purchases are made, a separate and supplementary "Cash Purchase Book" is used; but cash purchases by retailers from large wholesale houses are uncommon from the standpoint of an actual payment upon delivery of the goods. A very common use of the term "Cash" in such cases means payment within five or ten days, so that even during this short period the purchase has really been on account; and an entry is made in regular form in the Purchase Book, crediting the firm from whom the purchase is made.

Invoice Book. — Another method of procedure followed in the handling of a Purchase Book is to make no written entry on the purchase of goods, but on the arrival of the bill for the goods it is pasted in a book used for that purpose, and becomes the original record from which the debit and credit are posted. Such a book is better termed an "Invoice Book." This system has its advantages in that:

1. It saves the labor and time of writing the entry in a Purchase Book.
2. The bills may be allowed to accumulate for a week or longer, and then all the bills of each creditor may be pasted in together, causing only one credit to each creditor's account.

These several benefits are offset by the following disadvantages:

1. There is no entry until the original bill is received.
2. There is a possibility of a bill being lost before it is pasted in the book.
3. In the event of the above there is no record of the purchase; and on the receipt of a duplicate bill there may be a doubt as to the receipt of the goods.
4. All bills received are not of the same size; hence it is awkward to paste them together.
5. The original bill when paid cannot be receipted.

The first method as illustrated is better and safer.

Posting of the Purchase Book. — The name of every creditor appearing in the Purchase Book is credited in its respective account

in the Ledger for the amount opposite the name; and the corresponding debit is made to the Merchandise Account in the Ledger for the total purchases, as expressed in the illustration "Merchandise Debit."

Goods Rejected. — When an entry is made in the Purchase Book and subsequently all or a part of the purchase is rejected because of its being of inferior quality, etc., an entry is made in the Journal, debiting the creditor from whom the goods were bought, and crediting Merchandise, as Merchandise is no longer responsible for this amount. This being an adjustment, the entry is made in the Journal.

Allowances Received. — When an allowance from the purchase price of a particular purchase of merchandise is received, an entry is made in the Journal debiting the creditor's account and crediting "Allowance Received" Account.

Value of the Purchase Book. — The value of the Purchase Book lies in that it:

1. Relieves the general Journal.
2. Facilitates the recording of merchandise purchases.
3. Readily reveals the volume of purchases.
4. Facilitates posting in that but one debit to Merchandise need be posted.

CHAPTER XV

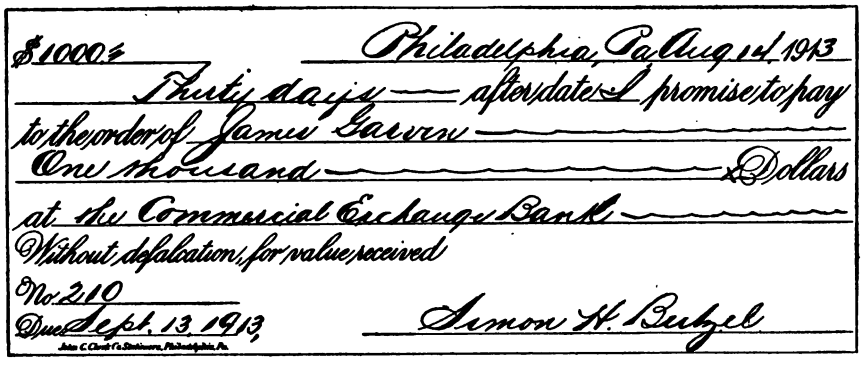
THE BILL BOOK

The Bill Book. — Unlike the Cash Book, Sales Book, and Purchase Book, the Bill Book, which by its construction permits of its use as a book of original entry, is more commonly used as an auxiliary book, and as such merely furnishes a description in full of all notes and accepted drafts handled by the business. Its use as an auxiliary book requires that the entries for all notes and accepted drafts be made in the Journal on their issuance or receipt, and in the Cash Book upon their payment.

We shall here follow the general practice of using it as an auxiliary book. An illustration is shown on pages 91 and 92.

The note or accepted draft itself furnishes the basis for the description provided for in the various columns. The uses for the columns are shown in entering the following note which was received on Aug. 15 from James Garvin, in settlement of his account.

A Promissory Note


$1000 Philadelphia, Pa. Aug 1st 1913
Thirty days — after date I promise to pay
to the order of James Garvin
One thousand — Dollars
at the Commercial Exchange Bank
Without defalcation, for value received
No. 210
Due Sept. 13 1913 Simon H. Berbel

The following indorsement is on the back of the note:

> Pay to the order of
>
> Alton B. Kirk
>
> (Signed) James Garvin

Bill Book

Notes Receivable

No.	Date Rec'v'd		Maker or Drawee	Payee	Indorser or Drawer	For What Received	Where Payable	Date of Making			Time to Run	Date of Maturity												L. F.	Amount	Disposition of			
								Yr.	Mo.	Da.		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.			Proceeds	Date		Remarks
210	Aug.	15	S. H. Beitzel	James Garvin	James Garvin	In settlem't of a/c	Commercial Ex. Bk.	1913	Aug.	14	30									13					1000	996.67	Aug.	24	Discounted at Farmers' Nat'l Bk.

Bill Book

Notes Payable

No.	Date Given	Maker or Drawee	Payee	Indorser or Drawer	For What Given	Where Payable	Date of Making			Time to Run	Date of Maturity												Ld.	Amount	Disposition of		
							Yr.	Mo.	Da.		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.			Proceeds	Date	Remarks

The following is the explanation of the various columns:

Column 1. The number of the note, 210.
2. The date received, Aug. 15.
3. The maker, S. H. Beitzel.
4. The payee, James Garvin.
5. The indorser, James Garvin.
6. Received in settlement of account.
7. Payable at the Commercial Exchange Bank.
8. Date of making (*a*) 1913
(*b*) Aug.
(*c*) 14th.
9. Time to run, 30 days.
10. Date of Maturity, Sept. 13.
11. Ledger folio used only when an original book.
12. Amount column, for the face of the note, $1000.00.

The entry in our Journal is:

Notes Receivable	$1000.00	
James Garvin		$1000.00

Received in settlement of account.

On Aug. 24 Alton B. Kirk has this note discounted at the Farmers' National Bank, receiving $996.67.

Under the part of the Bill Book designated "Disposition of," we first put $996.67 in the proceeds column, this being the amount received from the bank. The next column gives us the date when discounted or paid, in this case Aug. 24, and the final column (remarks) shows the manner in which the instrument is disposed of.

The Cash Book entry is made on the debit side, Cash being debited and Notes Receivable being credited for $1000.00; on the credit side crediting Cash and debiting Discount for $3.33.

Had the instrument we have just entered in the Bill Book been an accepted draft, the same columns would have been used, due to their double capacity. The maker of a note and the drawee of a draft bear the same relationship to the holder. The payee of a note and the payee of a draft are likewise of similar character, and finally the indorser of a note or a draft and the drawer of a draft may be treated alike by the holder.

The handling of the Notes Payable Book is identical with that of the Notes Receivable Book, and needs no further explanation.

Value of the Bill Book. — The Bill Book is of value in that it enables the bookkeeper:

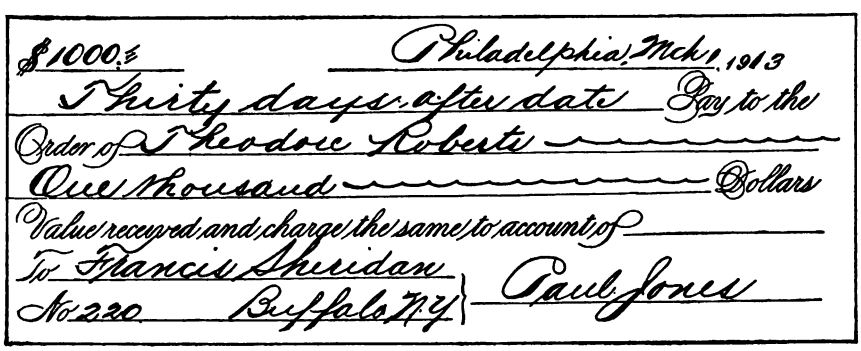
1. To keep a detailed record of every note and accepted draft without further reference to the instrument itself.
2. To ascertain the amounts and maturity dates of notes.
3. To have a record for future reference.

CHAPTER XVI

DRAFTS

Distinction between Bills of Exchange and Drafts. — At the outset it is important to distinguish between Drafts and Bills of Exchange, terms which are commonly used synonymously. The "Negotiable Instrument Act" of Pennsylvania defines a Bill of Exchange as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a certain sum in money to order or bearer." A draft, on the other hand, is more comprehensive, including as it does Bills of Exchange and also a great variety of non-negotiable orders to pay money. For instance, orders to transfer funds from one department to another and ordinary bank checks are drafts, but not Bills of Exchange. The term "draft" in the United States is applied to instruments payable in the United States, and Bills of Exchange to those payable in foreign countries. We shall adhere to the common usage.

A Draft


$1000.00 Philadelphia, Mch 1, 1913
Thirty days after date Pay to the
Order of Theodore Roberts
One thousand Dollars
Value received and charge the same to account of
To Francis Sheridan
No. 220 Buffalo N.Y.
Paul Jones

Parties. — The parties to a draft are:

1. The Drawer.
2. The Drawee.
3. The Payee.

Definition of Parties

1. The Drawer is the person or firm who draws or makes the draft. (Paul Jones.)
2. The Payee is the person or firm to whom the draft or order is made payable. (Theodore Roberts.)
3. The Drawee is the person or firm to whom the order to pay is addressed. (Francis Sheridan.)

Purposes of Drafts. — Drafts are of value:

1. As an aid and a protection in the collection and payment of debts.
2. As a means of avoiding the inconvenience, risk, expense, and delay incident to the transmission of specie or legal tender.

Illustration. — A in New York has stored ten car loads of grain in Chicago. He has agreed to deliver five of these to B in Chicago. He therefore orders C, the holder of the grain, to deliver the specified amount at a specified time. This obviates the necessity of sending the grain from New York to Chicago.

Or again, A in Philadelphia has deposited in a New York bank a sum of money. He owes $500.00 to B, also in New York. A draws a check (an order to pay) on his New York bank and mails it payable to B's order to B, to whom the money is transferred.

Thus, in both cases the indebtedness of A has been liquidated by an order transferring, in the first place, the ownership of the grain; in the second, the money to B.

In the second example the check, while symbolic of a certain sum of money in the bank, is also a credit instrument, and B, by depositing the check in his bank, is credited by that bank with the sum called for on A's bank. A, of course, could send the $500.00 in specie or legal tender direct to B.

A more striking example of the transfer of credit is where A in New York owes $1000.00 to B in Chicago, and C in Chicago owes $1000.00 to A in New York. A desires to settle his account with B, and C desires to settle his account with A. A might send the $1000.00 to B and C send his $1000.00 to A; but instead A requires C to pay B, thus cancelling A's indebtedness to B and C's indebtedness to A. In the former illustrations given there was a transfer of grain and money; here there is a transfer of indebtedness, which illustrates one of the chief uses of drafts.

Whereas the instruments used in the three illustrations on the previous page are all "Orders," the term "Draft" is applied only to the last two, which are for the payment of money. Thus we see, as in the second illustration, that orders of depositors upon their banks are really drafts, but being such a general class, these particular drafts are known as "checks."

Kinds of Drafts. — Drafts may be classified as follows:

1. Personal.
2. Bank.

In point of time of payment, personal drafts are either:

1. Time { (*a*) days after date. (*b*) days after sight.
2. Sight or demand.

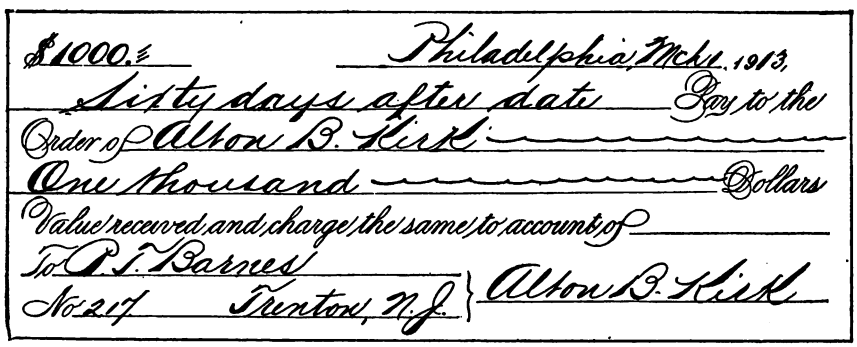
Bank drafts are always "sight" or "demand."

From the standpoint of parties, personal drafts may be either:

1. Two party.
2. Three party.

Bank drafts are always three-party drafts.

A Personal Time Draft, with Two Parties


$1000.00 Philadelphia, Mch 1, 1913.
Sixty days after date Pay to the
Order of Alton B. Kirk
One thousand Dollars
Value received and charge the same to account of
To P. T. Barnes
No 217 Trenton, N.J.
Alton B. Kirk

In the illustration, Alton B. Kirk is both the Drawer and Payee.

Inserting the words "Ten days sight" instead of "Sixty days after date" in the above illustration, we have another form of time draft. It means that ten days after presentment to P. T. Barnes, the drawee, it must be paid. Again, by inserting the words "At sight" instead of "Sixty days after date," we have what is known as a "Sight draft," or an order to pay the draft immediately on presentment to the Drawee. This form is commonly used to collect debts. Drafts payable "at sight" or "on demand" are identical.

A Personal Time Draft, with Three Parties

$1000.00 Philadelphia, Mch. 1, 1913

Thirty days after date Pay to the Order of F. S. Bailey

One thousand Dollars

Value received and charge the same to account of

To P. T. Barnes

No. 218, Trenton, N. J. } Alton B. Kirk

The same changes as to time may be made here as in the two-party draft.

A Bank Draft

No. 169 Philadelphia, Pa. March 15, 1913.

THE COMMERCIAL EXCHANGE BANK

Pay to the order of Alton B. Kirk $500.00

Five hundred Dollars.

To MICHIGAN NATIONAL BANK, CHICAGO. } A. M. Hart Cashier.

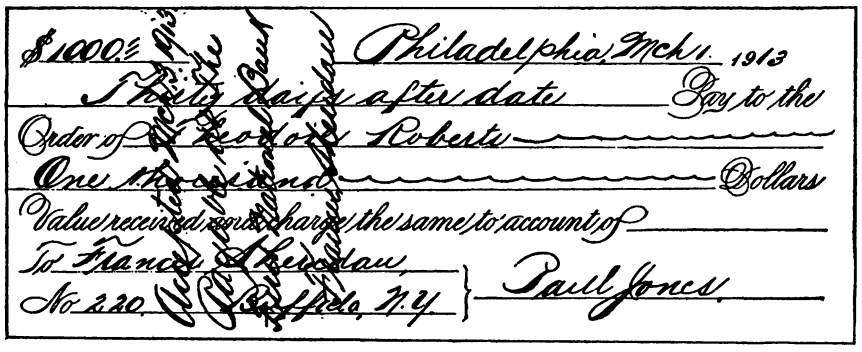
The above order is addressed to one bank by another bank, and it is always true of a bank draft that the drawer and drawee are banks, not persons. It finds its greatest usefulness in instances where the seller of merchandise, located in a different city than that of the purchaser, and unfamiliar with the latter's financial standing, will not ship the goods on the purchaser's personal check. The procedure is usually as follows: Alton B. Kirk has purchased $500.00 worth of Merchandise from James Garvin, of Chicago. He desires to purchase the above draft from his bank, the Commercial Exchange, which charges him a nominal sum for the accommodation. He makes out a check payable to the bank for the amount of the draft plus the bank's charge. In exchange for this he receives the

above draft, and, indorsing it properly, forwards it to James Garvin. These bank drafts are possible because banks have, as agents, other banks, called correspondents, in financial centers, with whom they carry deposits against which these orders are drawn.

Negotiability. — Like other instruments having the phrase "to the order of" or "bearer," drafts are negotiable, and are transferable by indorsement and delivery. They are peculiar, however, in that their negotiability dates only from the "acceptance" by the drawee.

Acceptance. — By "acceptance" is meant the expressed intention of the drawee to honor the order made on him by the drawer; or in other words, his promise to pay the sum requested on the date specified. He may make this promise by separate writing in the form of memorandum or letter addressed to the drawer, but ordinarily it is done by simply writing or stamping across the face of the draft itself the word "Accepted," with the date, place of payment, and signature.

An Accepted Draft


$1000.00 Philadelphia, Mch 1. 1913
Thirty days after date Pay to the
Order of Theodore Roberts
One thousand Dollars
Value received and charge the same to account of
To Francis Sheridan,
No. 220. Buffalo, N.Y.
Paul Jones.

In the case of a "sight" as "ten days sight" draft the date of acceptance is particularly important, as in those instances the time runs, not from the date of the draft itself, but from the date of its acceptance.

Characteristics. — By this writing of the drawee the draft loses its name as such, and is termed an "Acceptance," losing its chief characteristic of being an order by the drawer on the drawee to pay a certain sum, to become a promise by the drawee (by his acceptance) to pay the payee the agreed amount. Take for example the draft given above, previous to the drawing of which the relationship of the parties must have been as follows: Francis Sheridan of Buffalo

owed Paul Jones of Philadelphia, and the latter in turn owed Theodore Roberts of Scranton, Pa., the sum of $1000.00. Jones is desirous of paying Roberts and at the same time of collecting the money due him from Sheridan. He draws the draft as per illustration and mails it to Sheridan, who, after accepting it as indicated, returns it to Paul Jones, or at his direction to Roberts, who in turn receives it in payment of Paul Jones's debt to him.

What happens, then, is this: Jones has Sheridan assume his (Jones') indebtedness to Roberts. Sheridan pays Jones by giving him his "promise to pay" to Roberts, and Roberts releases Jones of his indebtedness on the receipt of Sheridan's "promise to pay." Therefore, by regarding an "Acceptance" as a Promissory Note, the recording of which is now familiar, we need make no special rule, but simply apply the principles of debit and credit, and make the necessary entries.

Jones' entry in this instance is made in his Journal as follows:

Theodore Roberts		$1000.00	
	Francis Sheridan		$1000.00

Sheridan is credited, having accepted a 30-day draft payable to Roberts. Roberts is debited, being responsible to Jones for the payment, and Sheridan is credited on giving up the responsibility of his indebtedness to Jones. Thus, Roberts' and Sheridan's accounts, before the adjustment, appear as follows:

Theodore Roberts

														1000	00

Francis Sheridan

						1000	00								

After the acceptance they are :

Theodore Roberts

					1000	00						1000	00

Francis Sheridan

					1000	00						1000	00

Roberts, on receiving what now is equivalent to Sheridan's written promise to pay, makes the following Journal entry:

Notes Receivable	$1000.00	
Paul Jones		$1000.00
Received Acceptance in settlement of account		

Note that Paul Jones is credited, and not Sheridan, for there is absolutely no connection between Roberts and Sheridan. Notes Receivable is debited because it is now responsible for the indebtedness previously shown in Jones' account, which account, having shifted this responsibility, is credited.

The entry on Sheridan's books is:

Paul Jones	$1000.00	
Notes Payable		$1000.00
Accepted 30-day draft in full payment of account		

Paul Jones is debited as he is responsible for the liability granted to him by Notes Payable (credit).

The entries of the drawer, drawee, and payee of any three-party time draft are on similar lines. Had Jones been payee as well as drawer, making it a two-party draft, his entry would have been:

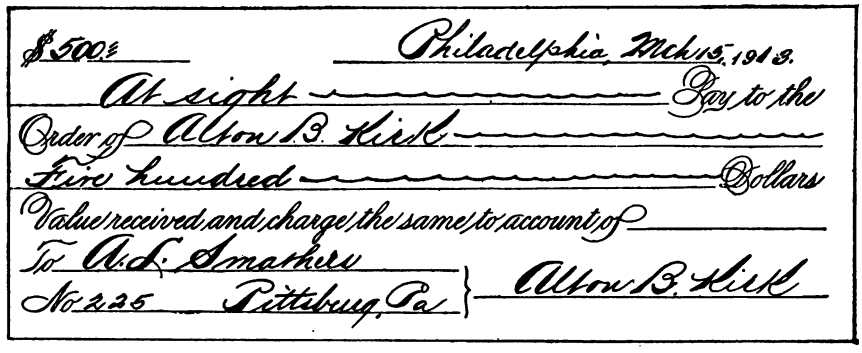
Notes Receivable	$1000.00	
Francis Sheridan		$1000.00

Sheridan's entry would have been the same as before.

As has been said, this form of draft is used extensively in business for the collection of debts past due, as are also sight drafts, the bank acting as agents for collection.

When these sight drafts are not used merely as a dun on a debtor, the bank may give the drawer credit on its books immediately, trusting to their acceptance by the drawee. For this reason in bookkeeping sight drafts are considered as cash, and the entries made accordingly.

A Sight Draft


$500.00 Philadelphia, March 15, 1913.
At sight Pay to the
Order of Alton B. Kirk
Five hundred Dollars
Value received and charge the same to account of
To A. L. Smathers
No. 225 Pittsburg, Pa
Alton B. Kirk

Alton B. Kirk's entry is:

Cash	$ 500.00	
A. L. Smathers		$500.00
Drew sight draft in settlement of bill, 3/12/13		

Smathers' entry is:

Alton B. Kirk	$ 500.00	
Cash		$ 500.00
Accepted sight draft in payment of invoice, 3/12/13		

Sight drafts are used largely in connection with Bills of Lading, a full discussion of which is found in a subsequent chapter devoted to that subject.

PROBLEM 34

Make the entries to record the following transactions :

Feb. 1, 1913. — Drew on George Carey, for $ 300.00 at 10 days sight, in favor of N. Lawton.

Feb. 2, 1913. — L. Simmons of New York agreed to honor A. L. Pope's sight draft for $ 500.00, so Pope drew on him in favor of Bernard Weaver, also of New York.

Feb. 3, 1913. — A. L. Pope drew on A. H. Minds for $ 600.00 at sight, in favor of himself. The draft was accepted.

Feb. 4, 1913. — R. H. Wilson accepted A. L. Pope's 30-day draft for $ 1000.00, drawn on him to-day, in Pope's favor. Pope took R. H. Wilson's Accéptance of even date to bank and had it discounted.

Feb. 5, 1913. — A. L. Pope accepted the $ 500.00 sight draft drawn on him by R. Hamilton.

A. L. Pope received a sight draft for $ 800.00 drawn in his favor by H. Markham, and drawn upon L. Neely, who accepted it.

Feb. 6, 1913. — A. L. Pope received from A. B. Ames a 60-day draft dated to-day for $ 1200.00, drawn upon C. D. Willard, who wrote his acceptance across the face of the draft.

Pope took Willard's acceptance to the bank and had it discounted.

Albert James owed A. L. Pope $ 485.00 on an open account, and the account was due to-day. James could not settle his account by cash, but asked Pope to take a 60-day acceptance of R. Ely for $ 500.00 in payment. The date of the acceptance was Jan. 8. Pope took the draft at its face value less discount at 6 % for the unexpired time.

Feb. 8, 1913. — L. B. Jones accepted a 60-day draft for $ 400.00 dated to-day, drawn upon him by T. H. Hickson in favor of P. C. Wells.

Feb. 9. 1913. — A. L. Pope owed C. E. Haines of New York $ 1000.00, and Haines requested Pope to remit by a bank draft on New York. Pope gave his check for $ 1000.00 to his bank and received in return a draft to his order on a New York bank, which he indorsed and mailed to Haines.

CHAPTER XVII

BILLS OF LADING

CLOSELY allied to the discussion of Drafts is the Bill of Lading, illustrations of which are shown on pages 105 and 106.

Our treatment of this subject may be said to begin and end in the accompanying illustrations, for the instruments themselves are self-explanatory. For the sake of clarity, we summarize their several characteristics.

Definition. — A bill of lading is a quasi-negotiable instrument, given by the carrier to the shipper as an acknowledgment of the receipt of the goods, and a contract to carry them. Its three chief characteristics are that it is:

1. Quasi-negotiable.
2. A receipt.
3. A contract.

Negotiability. — By "quasi-negotiable" is meant that it is negotiable in a restricted sense; that is to say, a bill of lading is not so readily current as the other negotiable instruments we have discussed (promissory notes and drafts). The purchaser of a bill of lading, having reason to believe that the vendor is not the owner of the bill, or that it is held to secure the payment of an outstanding draft, is not entitled to hold merchandise covered by the bill against its true owner. But it *is* ordinarily negotiable, in that it may be transferred by indorsement and delivery. Negotiability applies only to those bills of lading marked "Order" and not to those marked "Straight."

Receipt. — When the goods are turned over by the shipper to the carrier and nothing further remains for the shipper to do, the carrier's liability for the safety of the goods begins. A carbon copy (blue) of the original bill of lading, called the Memorandum, is given the shipper as a receipt, which is good evidence not only of the quantity and kind of goods received, but also of their condition.

Contract. — A bill of lading, however, is more than a receipt for goods; it is a contract, and as such is subject to the general rules of

Form 9—No. 1 Revised April 1st, 1909—West Bound Lake Traffic Clause added to Section 9.

The Reading

Philadelphia & Reading Railway Company.

Shippers No._____

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE.

Agents No._____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

*at*_____ *191*

from_____ the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route, to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

*The Rate of Freight from*_____

*to*_____ *is in Cents per 100 Lbs.*

IF...Times 1st	IF 1st Class	IF 2nd Class	IF Rule 25	IF 3d Class	IF Rule 29	IF Rule 29	IF 4th Class	IF 5th Class	IF 6th Class	IF Special per.....	IF Special per.....

(Mail Address—Not for purposes of Delivery.)

Consigned to _____

Destination,_____ State of_____ County of_____

Route,_____ Car Initial_____ Car No._____

NO. PACKAGES	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $.....
to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per_____

(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$_____

_____ Shipper. _____ Agent

Per_____ Per_____

This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Form 9—No. 2

Revised April 1st, 1909—West Bound Lake Traffic Clause added to Section

The Reading

Philadelphia & Reading Railway Company.

Shippers No.....

ORDER BILL OF LADING—ORIGINAL.

Agents No.....

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Philadelphia, Pa.,.....*19*

from.....the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

The Rate of Freight from.....

to.....*is in Cents per 100 Lbs.*

IF...Times 1st	IF 1st Class	IF 2nd Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special per.....	IF Special per.....

(Mail Address—Not for purposes of Delivery.)

Consigned to **ORDER OF** .....

Destination,.....State of.....County of.....

Notify .....

At.....State of.....County of.....

Route,.....Car Initial.....Car No.....

NO. PACKAGES	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN

"If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $.....to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per.....

(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$.....

.....Shipper. .....Agent.

Per..... Per.....

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

law interpreting such instruments. It assumes the characteristics of a contract after the goods are received for carriage, the agreement being between the shipper and the carrier that the latter shall convey the goods named to their proper destination, subject to the conditions printed on the back of the bill of lading. A copy of these conditions follows:

Conditions

Sec. 1. The carrier or party in possession of any of the property herein described shall be liable for any loss thereof or damage thereto, except as hereinafter provided.

No carrier or party in possession of any of the property herein described shall be liable for any loss thereof or damage thereto or delay caused by the act of God, the public enemy, quarantine, the authority of law, or the act or default of the shipper or owner, or for differences in the weights of grain, seed, or other commodities caused by natural shrinkage or discrepancies in elevator weights. For loss, damage, or delay caused by fire occurring after forty-eight hours (exclusive of legal holidays) after notice of the arrival of the property at destination or at port of export (if intended for export) has been duly sent or given, the carrier's liability shall be that of warehouseman only. Except in case of negligence of the carrier or party in possession (and the burden to prove freedom from such negligence shall be on the carrier or party in possession), the carrier or party in possession shall not be liable for loss, damage, or delay occuring while the property is stopped and held in transit upon request of the shipper, owner, or party entitled to make such request; or resulting from a defect or vice in the property, or from riots or strikes. When in accordance with general custom, on account of the nature of the property, or when at the request of the shipper the property is transported in open cars, the carrier or party in possession (except in case of loss or damage by fire, in which case the liability shall be the same as though the property had been carried in closed cars) shall be liable only for negligence, and the burden to prove freedom from such negligence shall be on the carrier or party in possession.

Sec. 2. In issuing this bill of lading this company agrees to transport only over its own line, and except as otherwise provided by law acts only as agent with respect to the portion of the route beyond its own line.

No carrier shall be liable for loss, damage, or injury not occurring on its own road or its portion of the through route; nor after said property has been delivered to the next carrier, except as such liability is or may be imposed by law, but nothing contained in this bill of lading shall be deemed to exempt the initial carrier from any such liability so imposed.

Sec. 3. No carrier is bound to transport said property by any particular train or vessel, or in time for any particular market or otherwise than with rea-

sonable dispatch, unless by specific agreement indorsed hereon. Every carrier shall have the right in case of physical necessity to forward said property by any railroad or route between the point of shipment and the point of destination; but if such diversion shall be from a rail to a water route, the liability of the carrier shall be the same as though the entire carriage were by rail.

The amount of any loss or damage for which any carrier is liable shall be computed on the basis of the value of the property (being the bona-fide invoice price, if any, to the consignee, including the freight charges, if prepaid) at the place and time of shipment under this bill of lading, unless a lower value has been represented in writing by the shipper or has been agreed upon or is determined by the classification or tariffs upon which the rate is based, in any of which events such lower value shall be the maximum amount to govern such computation, whether or not such loss or damage occurs from negligence.

Claims for loss, damage, or delay must be made in writing to the carrier at the point of delivery or at the point of origin within four months after delivery of the property, or, in case of failure to make delivery, then within four months after a reasonable time for delivery has elapsed. Unless claims are so made, the carrier shall not be liable.

Any carrier or party liable on account of loss of or damage to any of said property shall have the full benefit of any insurance that may have been effected upon or on account of said property, so far as this shall not avoid the policies or contracts of insurance.

SEC. 4. All property shall be subject to necessary cooperage and baling at owner's cost. Each carrier over whose route cotton is to be transported hereunder shall have the privilege, at its own cost and risk, of compressing the same for greater convenience in handling or forwarding, and shall not be held responsible for deviation or unavoidable delays in procuring such compression. Grain in bulk consigned to a point where there is a railroad, public, or licensed elevator, may (unless otherwise expressly noted herein, and then if it is not promptly unloaded) be there delivered and placed with other grain of the same kind and grade without respect to ownership, and if so delivered, shall be subject to a lien for elevator charges in addition to all other charges hereunder.

SEC. 5. Property not removed by the party entitled to receive it within forty-eight hours (exclusive of legal holidays) after notice of its arrival has been duly sent or given may be kept in car, depot, or place of delivery of the carrier, or warehouse, subject to a reasonable charge for storage and to carrier's responsibility as warehouseman only, or may be, at the option of the carrier, removed to and stored in a public or licensed warehouse at the cost of the owner and there held at the owner's risk and without liability on the part of the carrier, and subject to a lien for all freight and other lawful charges, including a reasonable charge for storage.

The carrier may make a reasonable charge for the detention of any vessel or car, or for the use of tracks after the car has been held forty-eight hours (exclusive

of legal holidays), for loading or unloading, and may add such charge to all other charges hereunder and hold such property subject to a lien therefor. Nothing in this section shall be construed as lessening the time allowed by law or as setting aside any local rule affecting car service or storage.

Property destined to or taken from a station, wharf, or landing at which there is no regularly appointed agent shall be entirely at risk of owner after unloaded from cars or vessels or until loaded into cars or vessels, and when received from or delivered on private or other sidings, wharves, or landings, shall be at owner's risk until the cars are attached to and after they are detached from trains.

SEC. 6. No carrier will carry or be liable in any way for any documents, specie, or for any articles of extraordinary value not specifically rated in the published classification or tariffs, unless a special agreement to do so and a stipulated value of the articles are indorsed hereon.

SEC. 7. Every party, whether principal or agent, shipping explosive or dangerous goods, without previous full written disclosure to the carrier of their nature, shall be liable for all loss or damage caused thereby, and such goods may be warehoused at owner's risk and expense or destroyed without compensation.

SEC. 8. The owner or consignee shall pay the freight and all other lawful charges accruing on said property, and, if required, shall pay the same before delivery. If upon inspection it is ascertained that the articles shipped are not those described in this bill of lading, the freight charges must be paid upon the articles actually shipped.

SEC. 9. Except in case of diversion from rail to water route, which is provided for in section 3 hereof, if all or any part of said property is carried by water over any part of said route, such water carriage shall be performed subject to the liabilities, limitations, and exemptions provided by statute and to the conditions contained in this bill of lading not inconsistent with such statutes or this section; and subject also to the condition that no carrier or party in possession shall be liable for any loss or damage resulting from the perils of lakes, sea, or other waters; or from explosion, bursting of boilers, breakage of shafts, or any latent defect in hull, machinery, or appurtenances; or from collision, stranding, or other accidents of navigation, or from prolongation of the voyage. And any vessel carrying any or all of the property herein described shall have the liberty to call at intermediate ports, to tow and be towed, and assist vessels in distress, and to deviate for the purpose of saving life or property.

The term "water carriage" in this section shall not be construed as including lighterage across rivers or in lake or other harbors, and the liability for such lighterage shall be governed by the other sections of this instrument.

"If the property is being carried under a tariff which provides that any carrier or carriers party thereto shall be liable for loss from perils of the sea, then as to such carrier or carriers the provisions of this section shall be modified in accordance with the provisions of the tariff, which shall be treated as incorporated into the conditions of this Bill of Lading."

SEC. 10. Any alteration, addition, or erasure in this bill of lading which shall be made without an indorsement thereof hereon, signed by the agent of the carrier issuing this bill of lading, shall be without effect, and this bill of lading shall be enforceable according to its original tenor.

Conditions. — Some of the more important conditions are that the carrier shall not be liable for loss by:

1. Acts of God, public enemy, or quarantine.
2. The variance in the weights of seeds or cereals by shrinkage.
3. Fire, after forty-eight hours from arrival in warehouse.
4. Stoppage by riots or shipper's orders.
5. Claims after four months.

Act of June 27, 1908. — On June 27, 1908 the Interstate Commerce Commission took official cognizance of bills of lading by prescribing uniform forms to be used by the interstate railroads, as follows:

1. The vouchers for a "Straight" Bill of Lading to be used in connection with "straight" shipments should consist of:
   (*a*) Straight Bills of Lading.
   (*b*) Original Shipping Order.
   (*c*) Memorandum (all to be printed on white paper).
2. The vouchers for an "Order" Bill of Lading to apply to "Order" shipments should consist of:
   (*a*) Original (to be printed on yellow paper).
   (*b*) Shipping Order.
   (*c*) Memorandum (last two to be printed on blue paper).
3. All vouchers used should be $8\frac{1}{2}$ inches wide, no restrictions being made as to length.

Distinction between Straight and Order Bill of Lading. — The distinction between the straight and order bill of lading is that goods sent as "straight" shipment are delivered to the consignee without his surrendering the original bill; and, furthermore, this form is not negotiable.

On the other hand, goods shipped on order cannot be secured by the consignee without his surrender of the original bill. This form, previously mentioned, is negotiable by indorsement and delivery. It is in conjunction with drafts that the order bill finds its principal use. An explanation will be given in a later paragraph.

Description. — By reference to the preceding cuts it will be noted that the following are the more important elements of every bill of lading, whether order or straight:

1. Receipt of goods and a descriptive list thereof; giving the number of packages, weight, and classification.
2. Names of Shipper, Consignee, Carrier, and Shipping Agent.
3. Place and destination of shipment, together with date.
4. Freight rates and other charges and prepayments thereof.

Comparison of Straight and Order Bill of Lading. — As previously stated, when goods are shipped "straight," the consignee can often obtain the goods without the bill of lading, and then refuse to pay the bill; or the consignee may fail to claim the goods, in which case, if perishable, they may become valueless. On the other hand, goods shipped on "order" overcome these disadvantages in that the purchaser cannot obtain the goods until the amount of the bill has been collected. Where the goods are perishable, an utter loss can be prevented by directions to the holder of the original bill to sell them in open market if the consignee does not claim them within a reasonable time. Or, if the goods are not perishable, the railroad may be instructed to ship the goods back to the shipper.

Disposition of Vouchers. — We noted above that the Interstate Commerce Commission prescribed three vouchers for both the straight and order bills of lading. These vouchers are:

1. Original Bill of Lading.
2. Shipping Order.
3. Memorandum.

These are disposed of as follows: The shipping clerk of the shipper makes out the original bill of lading, at the same time making carbon copies of the shipping order and memorandum which are identical in form except for the difference in the headings. The original is sent to the consignee, the shipping order is retained by the railroad, and the memorandum is held by the shipper. It is important that the shipper and consignee retain their vouchers for reference, to verify the freight bills and as a basis for later entering claims for loss if necessary.

"Straight" Bills. — The use of straight bills of lading needs little explanation. On delivery of the goods to the railroad and proper disposition of the forms, the goods are simply shipped and received by the consignee without any further procedure.

Order Bill of Lading with Draft Attached. — However, the operation of an order bill of lading, with its usual accompaniment, a sight draft, is slightly more involved. To illustrate: Suppose that Alton

B. Kirk, of Philadelphia, is sending goods to James Garvin, a merchant in Chicago. He consigns the goods to himself or to the Third National Bank of Chicago (Order, Notify James Garvin) and has a bill of lading made out where they are shipped, being given the original order bill and the memorandum. This latter he retains, but the order bill, together with a sight draft drawn on James Garvin for the amount of the bill, he takes to his Philadelphia bank. They advance the amount, giving him credit for it at once, and make the collection for themselves; or more commonly they take it for collection, credit him with the amount, and charge him for "Collection" after the collection is made. The bill of lading gives the bank title to the goods until they are paid for. The Philadelphia bank then sends the draft, with the bill attached, to the Third National Bank of Chicago, and that bank attends to the collection. It presents the draft to James Garvin for collection, but does not surrender the bill of lading to him (without which he cannot obtain the merchandise) until the draft is paid.

CHAPTER XVIII

PARTNERSHIPS

THE subject of Associations, of which Partnership is a part, is too comprehensive a branch of the Law for us to investigate, except in a most limited manner. We shall therefore restrict our discussion to the few general facts in so far as they are necessary to an intelligent examination of the books of a firm composed of two or more members.

The Supreme Court of the State of Pennsylvania has approved the following definition:

Definition. — "A partnership is a relation created by contract between two or more persons to place their money, effects, labor, or skill, or some or all of them in lawful commerce and divide the profits between them."

Articles of Partnership. — The written instrument effecting such a relation is familiarly known as "Articles of Partnership," an agreement of the parties governed by the general law of Contracts. It should contain the following essentials with such additional provisions as the peculiarities of the undertaking require:

1. Date.
2. Names of Parties.
3. Term of Partnership.
4. Purpose.
5. Recitation of Assets pledged (with detailed schedule of Assets attached). Disposition of Liabilities also accompanied by schedule. Contribution of labor or skill.
6. Sharing of losses and division of profits.
7. Provision in case of impairment of capital.
8. Limitation of activities of the partners.
9. Withdrawals and compensation of partners.
10. Firm's name and address.
11. Limitations as to partners' signing accommodation paper or bail or becoming guarantors or sureties.
12. Proper provision for the signing of checks.

13. Length of the fiscal year as deciding when net profits are to be distributed.
14. Realization and Liquidation in the event of dissolution or failure.

Kinds of Partnerships. There are two classes of Partnerships:

1. Common Law.
2. Statutory.

Liability of Partners. — The difference is the extent of liability of the partners, ranging from unlimited liability in the case of the "Common Law Partnerships" to various degrees of liability in the case of the "Statutory Partnerships," which are regulated by the Acts of Legislature of the state wherein they are created. This liability, generally speaking, consists of the individual responsibility of each of the partners for the entire indebtedness for the firm, and "there is no convenient device whereby one may become a member of the ordinary partnership and acquire a right to a share in its profits and to help control its affairs, without assuming an ultimate responsibility for its debts."

Tests of Partnership. — Although profit sharing is an excellent indication of the character of the association of individuals, and it usually follows that an agreement to share profits is an earmark of an existing partnership, yet it does not necessarily follow; and when in doubt, the element of control — the power to shape the destinies of the business — should be the determining factor. Take, for instance, the following examples:

A leases a coal mine to B, agreeing to take a certain amount of coal in lieu of rent. By this fact alone A does not become a partner.

Or, again, C owns a steel plant employing a thousand men who in addition to their wages receive a share of the net profits. They do not thereby become partners of the business. They are not co-proprietors.

On the other hand, it is a well-recognized rule of law that a man may not have any of the usual characteristics of a partner; yet if he holds himself out as a partner, to the injury of innocent third parties, the courts may hold him liable on the failure of the firm with which he allowed his name to be associated.

Purposes of Partnerships. — The formation of Partnerships has its advantages in;

1. The concentration of capital for the enlargement of business enterprise.
2. The elimination of competition.
3. The coöperation of men of widely different knowledge and varying degrees of wealth.

Bookkeeping Records of Partnerships. — Needless to say, the keeping of books of a partnership is in no wise different from the system of accounting we have been considering, other than the fact that separate Personal and Capital Accounts are kept for each partner.

The Journal, as the book of original record, should show the share and contributions of each partner, and careful record should be kept of all subsequent additions in cash or property. Finally, proper distinctions should be made between withdrawals for salary and withdrawals of anticipated profits. Whereas the former is charged to an expense account, the latter is debited directly to the Proprietor's Personal Account.

Proprietor's Personal Account. — The Personal Account of the proprietor of the business is subordinate to the Capital Account. It has for its purpose the reflecting of withdrawals (except salary) taken by the Proprietor, and at the end of the year shows the net profit or loss.

Its purpose is to keep these smaller items out of the Capital Account, which represents his ownership in the business.

At the end of a year the net balance of the Personal Account may be closed into the Capital Account, either increasing or decreasing the proprietor's present worth.

Thus, Alton B. Kirk invests $50000.00 in a business which is shown in his Capital Account. He is to take $250.00 per month for salary.

Alton B. Kirk, Capital

						1918 Jan.	1		C	1	50000	00

As Kirk takes the $250.00 for salary each month, the entry is:

Expense (or salary)	$250.00	
Cash		$250.00

Suppose at the end of a month Mr. Kirk does not need the money and gives instructions that it is to be credited to his account. This is recorded by the entry:

Expense (or salary)	$250.00	
Alton B. Kirk, Personal		$250.00

This is the method very commonly used, the entry being made monthly or weekly, and as the proprietor needs cash he draws out what he needs and charges it to his Personal Account.

At the end of six months, Alton B. Kirk's Personal Account appears as follows:

Alton B. Kirk, Personal

May	1	C	1	1200	00	Feb.	1	J	1	250	00
June	1			800	00	Mar.	1		2	250	00
						Apr.	1		3	250	00
						May	1		4	250	00
						June	1		6	250	00
						July	1		8	250	00

Thus, we see that Kirk has drawn more than his salary, which excess may be looked on as an amount he is going to repay by allowing his salary to cancel it; or it can be regarded as anticipated profits withdrawn, as it is considered here.

Suppose the Profit and Loss Account shows a profit for the six months of $1300.00. This we can close into the Personal Account by the entry:

Profit and Loss	$1300.00	
Alton B. Kirk, Personal		$1300.00

After posting this item to the Personal Account, there is a credit balance of $800.00, showing that the total amount withdrawn by Kirk is $800.00 less than the sum of his salary and profits together. He now has the privilege of drawing this $800.00, or closing it into his Capital Account, thereby increasing his present worth; or again, he may leave this balance in his Personal Account to cancel subsequent withdrawals.

The entries for the first two instances are:

1. Alton B. Kirk, Personal	$800.00	
Cash		$800.00
2. Alton B. Kirk, Personal	$800.00	
Alton B. Kirk, Capital		$800.00

Closing the balance of Personal Account into Capital Account is adopted throughout the illustrations, and is desired in the problems.

CHAPTER XIX

A BANK ACCOUNT

FROM 90 to 95 % of the world's business is done on credit and by means of credit instruments, largely checks. In fact, the use of checks has become so general, and is such a convenience, as to be a necessity to even the smallest business man.

Check Account. — A check account, or bank account, is the relation an individual has with a bank, representing that he deposits money with it, and has the privilege of drawing checks against the money so deposited.

Checks. — A check is a written order, signed by the drawer, requesting his bank to pay to the order of a second party or bearer a certain sum of money on demand.

Advantages of a Bank Account. — The advantages obtained by being a depositor in a bank are as follows :

1. A bank is a safer place in which to keep money than a safe or a cash drawer.
2. It permits the use of checks, which in turn
   (*a*) Facilitate the payment of bills.
   (*b*) Act as receipts for the bills paid.
3. Provides a means for collecting checks, notes, drafts, etc., that may come into the depositor's possession.
4. The bank, knowing the depositor to have a good account, is more apt to consider a loan or discount.

Banks are, naturally, careful in their selection of depositors, but they are always ready to open an account with a customer, provided he is reputable and honest.

How to open a Bank Account. — The procedure in opening a bank account is as follows :

1. To be introduced
   (*a*) by some person recognized by the bank, or
   (*b*) by another depositor, or
   (*c*) by an officer of the bank.

The reason for the introduction is that the banks desire only depositors who keep a desirable balance in bank, and who do not overdraw their accounts; and, further, they want to know the depositor's sponsor, as it may be a further recommendation in case he desires to borrow.

2. The depositor and sponsor must sign a card, giving their addresses. This is for the bank's records.
3. The depositor is also requested to sign another card, as a record for the identification of his signature on checks drawn in the future.

The "signature card" is kept near the paying teller in the bank for reference in case of a doubtful signature.

Assuming that the prospective depositor has been accepted by the bank, through its officers in charge (very often the cashier or an assistant cashier), he is now given:

A Deposit Slip

DEPOSITED WITH
PRODUCE NATIONAL BANK

By_____

_____

Philadelphia,_____191__

	Dollars	Cents
Specie		
Bills		
Checks, as follows (enter singly). (If in city, name of bank; if out of city, name of place where payable.)		
Total		

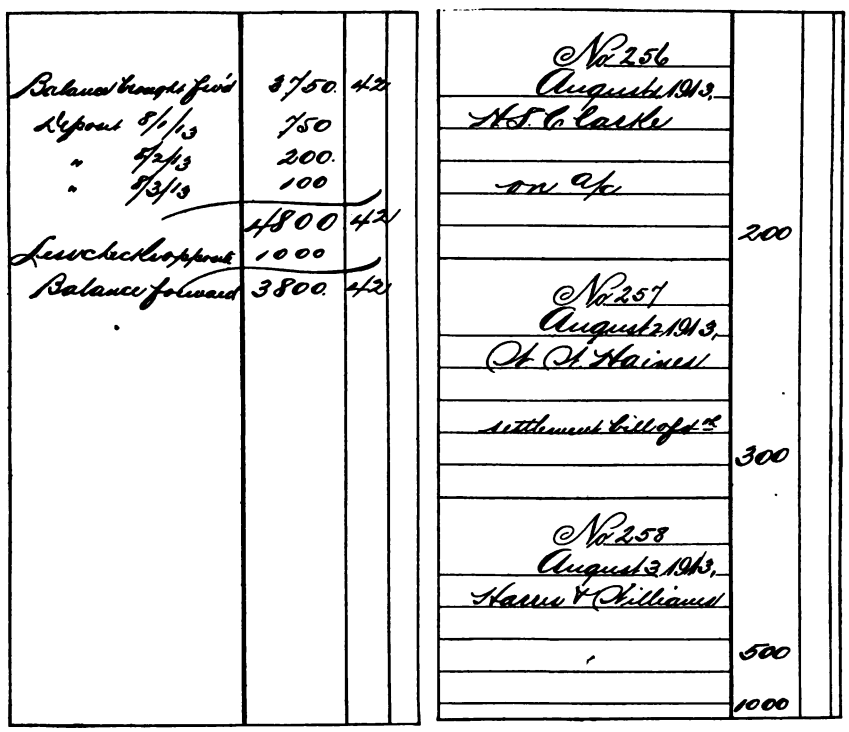
1. Deposit Tickets.
2. Pass Book.
3. Check Book.
4. Coupon Envelopes.

Deposit Slips. — The deposit tickets, or deposit slips, are sheets specially designed by banks on which the details of a deposit are listed. An illustration of a deposit slip is given on the preceding page. The precise form used by one bank will naturally differ from that of another, but the general divisions are the same.

Bank Deposits. — In making a deposit, it is customary to place the amount of money in coin opposite the first heading, marked "Specie," and the amount of money in bills opposite the second heading, "Bills."

Next comes the heading "Checks," under which each check is listed separately, city checks being placed first on the list; and the

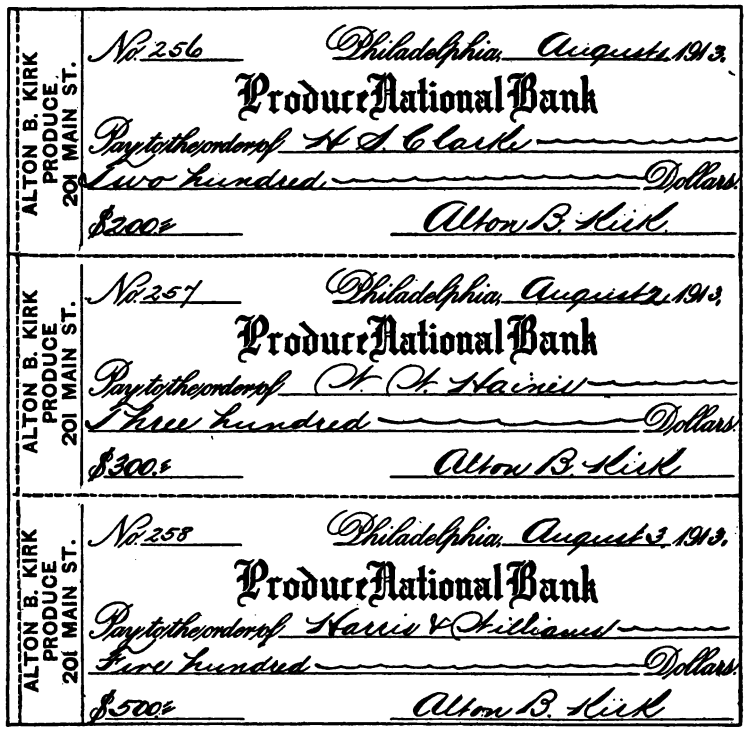
Back of Previous Stub **Stub of Page Opposite**



name of the bank on which each check is drawn being usually given. After the city checks come checks drawn on banks in other cities, which are designated by the name of the city in which the banks are located. Other forms of deposit slips are found in use, but the principle is identical in all.

Pass Book. — The pass book is a receipt book, in which, when a deposit is made, the receiving teller of the bank records the date and the amount of the deposit. This serves as a receipt to the depositor. Another use of the pass book, but one that is being supplanted, is to express the figures of the bank settlement. The deposits are added when the book is left for settlement, and from the total are subtracted the checks which have been honored by the bank. These checks are now returned to the depositor. The balance represents the amount which the bank has credited to the depositor's account. This amount does not necessarily equal the balance shown by the depositor's check book. A system by which

Sample Page from a Check Book


ALTON B. KIRK
PRODUCE
201 MAIN ST.

No. 256 Philadelphia, August 1, 1913.

Produce National Bank

Pay to the order of H. S. Clark

Two hundred Dollars

$200.00 Alton B. Kirk

ALTON B. KIRK
PRODUCE
201 MAIN ST.

No. 257 Philadelphia, August 2, 1913.

Produce National Bank

Pay to the order of A. A. Haines

Three hundred Dollars

$300.00 Alton B. Kirk

ALTON B. KIRK
PRODUCE
201 MAIN ST.

No. 258 Philadelphia, August 3, 1913.

Produce National Bank

Pay to the order of Harris & Williams

Five hundred Dollars

$500.00 Alton B. Kirk

the bank mails monthly to the depositor a statement with the honored checks inclosed is supplanting the use of the pass books in settlement. On the statement are shown individual deposits, from the total of which the sum of the honored checks is subtracted, and the balance is the amount then on deposit. This method is better both

for the depositor and the bank, since the depositor's check book is balanced at least monthly, and thus his account is kept in closer accord with the bank's record.

Check Book. — The check book is a book given by the bank to a depositor. It contains a number of blank checks with corresponding stubs, and from it checks are issued by the depositor, and a duplicate record of each check kept on the corresponding stub.

In the handling of a check book great care should be taken, and the following principles should be observed in connection with each check issued:

1. It should contain the date on which it was issued.
2. It should contain the number of the check itself. (Very important, if it is desired to stop payment on a check.)
3. It should be drawn to the order of the party desired (payee), whose name should be carefully spelled to prevent the possibility of further trouble. It is common for checks to be drawn to "Cash," or "Bearer"; but this is a dangerous practice, as the check may be lost, and is valid in the hands of the finder.
4. The amount of the check is both written in the body of the check and placed in figures in the corner. Too great care cannot be taken in writing in the amount. It should commence at the extreme left of the check, and if the entire line is not used, the balance should be cancelled, as by the lines in the foregoing illustrations. This is to prevent "raising" by the payee or any other party into whose hands the check may fall; for when the written amount and the amount written in figures differ, the written amount is taken as correct.
5. The signature of the drawer should always be the same, as the banks will refuse payment on checks improperly signed.

Indorsement of Checks. — Checks, like other negotiable instruments, may be transferred by the payee to any other party by indorsement, but the customary indorsements are to the bank of deposit of the payee. The three forms which follow are common for such indorsements:

1. Indorsement in blank, being merely the signature of the payee.

ALTON B. KIRK.

2. Special indorsement.

Pay to the order of the
Commercial National Bank,
ALTON B. KIRK.

3. Or,

For deposit only,
ALTON B. KIRK.

Stubs of Check Book. — As shown in the illustration the amount of the check is also placed on its corresponding stub, and as a page of the book is used, the several amounts on the stub are added. This amount is subtracted from the sum of the deposits, which have been previously listed on the back of the stub, as illustrated.

Bank Reconcilement. — When there is a bank settlement, either by having the pass book settled at bank, or receiving from the bank a monthly statement of the account, the balance as shown in the check book should be immediately compared with that shown by the bank. This should be done preferably on the back of the stubs in the check book opposite the day of settlement, or on a separate sheet subsequently to be pasted in the check book. The process is as follows: First, on the back of the stub, the total deposits are ascertained as in the illustration, $4800.42; then the checks are totaled on the stub, $1000.00. The bank's settlement is now examined to see if any interest has been allowed, and, if so, this is added to the deposits. At the same time, if any item has been charged, such as for the collection on notes or drafts, or interest on loans, etc., it is added to the total of the checks issued. To continue the illustration, suppose $25.00 has been allowed by the bank for interest on deposit, and $75.00 interest on a loan to the depositor has been deducted. To the $25.00 interest is added the amount of deposits, making $4825.42, and the $75.00 is added to the total of checks issued, making $1075.00. The difference between these two is the check book balance, which seemingly should equal the balance shown by the bank; this, however, is seldom true, particularly where a number of checks have been issued just prior to settlement. It must be remembered that in balancing the check book, every check issued to the date of the settlement has been deducted, while naturally the bank has counted only the checks presented to it for payment. Hence, if there are still any checks unpaid, the sum of such unpaid checks is the difference between the two balances, and, as in the check book balance these unpaid checks have been deducted, and, as

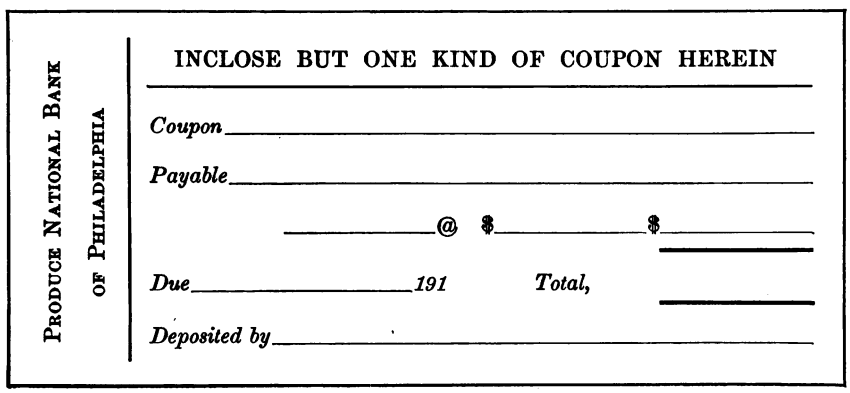
they have not been in the bank balance, this figure is necessarily greater than the check book balance by that amount. To prove this, the checks returned by the bank are numerically arranged and compared with the stubs of the check book to see if any are missing. Such missing checks are listed with the number and amount of each and totaled. This total is now subtracted from the bank balance, and the result is equal to the check book balance.

To continue our illustration :

Deposits		$4800.42	
Interest to 7/3/13		25.00	
		$4825.42	
Less			
Total checks	$1000.00		
and			
Int. on loan	75.00	1075.00	
Balance		$3750.42	
The bank shows a balance of			$4200.42

A list of the checks outstanding shows:

Check No. 223	$100.00	
Check No. 236	50.00	
Check No. 237	75.00	
Check No. 251	25.00	
Check No. 253	200.00	
	$450.00	450.00
The check book balance, therefore, is		$3750.42


PRODUCE NATIONAL BANK OF PHILADELPHIA

INCLOSE BUT ONE KIND OF COUPON HEREIN

Coupon _____

Payable _____

_____ @ $_____ $_____

Due _____ *191* *Total,* _____

Deposited by _____

Coupon Envelopes. — A coupon envelope, given a depositor by a bank, is merely a small printed envelope in which to place coupons when making deposits.

A coupon is an interest note attached to a bond, and when the interest is due, it is clipped from the bond and deposited, and later collected by the bank from the corporation issuing the bond.

An illustration of a coupon envelope is shown on the opposite page.

PROBLEM 35

Bank Reconcilement

On Aug. 31, J. M. Willis' check book reveals a balance of $10346.61.

In comparing his balance with that shown by the bank, Willis discovers that he failed to record a deposit of $760.39 on Aug. 20, and that a check issued on Aug. 29 to the amount of $48.76 had been listed on the stub as $47.76. In addition, the bank has given him $80.36 interest, on deposits, and this amount has not as yet been entered by him in his check book.

The bank's settlement presents Willis' balance as being $12386.46.

What is the total of the checks drawn by Mr. Willis which have not as yet been presented to the bank for payment?

CHAPTER XX

SHIPMENTS AND CONSIGNMENTS

VERY often the business man in looking over the markets in which to dispose of his goods finds that markets far removed from his field of business offer far better prices. If the margin of profit in the local market is small, and if the other markets offer better inducements than his, it is but natural that he consider the sale of his goods at the place where they will bring the greatest return.

On the other hand, there are certain classes of men who seldom desire to sell their goods outright at wholesale prices, but who prefer to place their goods for sale at the market offering the greatest return and to take the chance of greater profits. Many farmers in disposing of their products act in this manner. To either or both of the above classes of men the shipment on account is possible.

Definition. — A shipment is a quantity of goods sent by one business house to another, not as a sale, but to be sold for the account of the shipper. When regarded from the point of view of the receiver of the goods, the shipment is called a consignment.

Thus we see that shipments and consignments are identical, the distinction being the standpoint from which they are regarded.

The definition also brings out the fact that shipments and consignments are not sales and purchases, and that title to the goods remains in the shipper until sold, the receiver (consignee) acting merely as his agent. The question may be raised as to how a local dealer knows the current prices in other markets. He has several sources of information in the trade papers and journals and through daily market reports issued by the larger houses and distributed to customers and producers who ship on account. Thus, if a man has goods for sale in a local market and is not satisfied with prices, he has the option of storing his goods and waiting for better local prices, or shipping them to better markets. To store his goods means expense and the loss of so much capital while the goods are stored, unless he has his own warehouse, so the results of either plan must be measured. If the man decides to ship on account, he chooses

a consignee whose reputation is unquestioned and who has good business ability. Such a consignee is found either from satisfactory shipments made to him previously, from inquiry within the trade, or from the commercial agencies, from whom a report on his capital and credit standing may be obtained.

Since the consignee is but the agent of the shipper and does not own the goods, and since the ownership remains with the shipper, the consignee cannot be held responsible for any definite value until he has sold the goods to a third party. After such a sale the shipper cannot recover the goods, but he can hold the consignee responsible for their value. Hence, any goods out on shipment are to be considered a part of the inventory of the shipper until such time as he knows the consignee has sold them and has thus become responsible.

Shipments

Shipment Memorandum. — When a quantity of goods is sent out as a shipment, notice must be sent to the consignee. This notice takes the form of a letter or a regular "Shipment Memo." blank; but either form may be used, provided such notice contains the following:

1. Date of Shipment.
2. Quantity and description of Shipment.
3. Instructions as to methods of selling.
4. For whose account Shipment is to be sold.

The date, the quantity, and description are essential, so that the consignee may know when to expect the goods, etc.; for in the event of their being a standard grade, he may sell them before arrival. The instructions as to selling may be omitted, in which case the consignee sells at the best possible price. The cost price to the shipper may be mentioned merely to give the consignee an idea of the price he must ask in order to yield a profit; or the shipper may give a minimum price, below which the consignee is not to sell. Naturally the name of the shipper must be given.

Upon receipt of the goods, in order to prevent any liability on his part due to negligence, the consignee must take ordinary care of the goods. This may include counting, storing, and insuring them. It is to his advantage to obtain the highest possible price for the goods, as his return is a commission, usually taken on the gross amount of sales.

Commission. — Commission is an allowance paid to an agent as his return for conducting a business transaction. It is usually a percentage of the total value of the transaction.

A consignee must keep a separate record of each consignment, as in making return he will have to show the sales and expenses, which in addition to his commission may include labor, cartage, freight, storage, insurance, etc. When a consignment has been sold, the consignee makes out what is known as an account sales and sends it to the shipper.

Account Sales. — An account sales is a statement of the sale or disposition of a particular shipment, giving details of sales and expenses made out by a consignee and sent to the shipper.

Consignees usually have an "Account Sales Book" consisting of two copies, the original account sales, and a stub for each. It is customary for them to contain the following:

1. The total goods received.
2. The details of sales.
3. The details of charges and expenses.
4. The terms of settlement:
   (*a*) by check.
   (*b*) by note or draft.
   (*c*) proceeds due in 30 or 60 days, etc.

Thus the account sales gives the shipper a complete history of his shipment from the time the consignee receives it to the time it is sold, and, further, gives him a list of all charges and expenses. By the "terms of settlement" is meant the manner in which the consignee is to remit the proceeds. If he sells the goods for cash, he sends his check. Since he usually sells to his own customers and has to await payment from them for 30 or 60 days, he may send the shipper his note or merely state that the proceeds will follow in a given number of days.

When the consignee forwards an account sales to the shipper, he acknowledges the sale of the goods and his liability to the shipper. If he does not satisfy this liability at the same time by sending his check or note, he must open an account with the shipper, who is now a creditor; and the shipper on receipt of the account sales must open an account with the consignee, who is now a debtor.

In practice the consignee seldom awaits the sending of the account sales to the shipper to notify him of the sale of his goods, but upon

Account Sales

No. ——

Of Merchandise Received *July 2, 1913.*

From *Alton B. Kirk*

To be sold on Commission by *James Garvin*

Date		*Description*				*Amount*	
		500 bx. Oranges		@ $2.80		1400	00
						1400	00
		REMARKS	Freight	40	00		
			Drayage	10	00		
			Commission	140	00		
		Settled: Check herewith	Storage	10	00		
			Insurance				
			Advertising				
			Cooperage				
						200	00
						1200	00*
		* In red ink.					

the sale of all, or a part, writes or telegraphs a record of such sale. This is particularly true when the sale has been made at a favorable sum and the consignee desires to please the shipper in order that he may receive further consignments. Selling on commission is profitable to the consignee, as he has no capital represented in the goods, stands no chance of losing, and will make his commission even though the shipper lose considerable money.

Recording of Shipments on the Books. — We shall consider two methods of recording shipments. In the first we shall use a Shipment Account. Since the goods are not sold, we cannot debit the consignee, and furthermore we do not know the amount with which to charge him until we have received the account sales. In order, then, to avoid this difficulty, and at the same time show a shipment on the books, we debit an account called "Shipment" (to the particular consignee).

Illustration. — On July 1, Alton B. Kirk shipped to James Garvin 500 boxes of oranges, costing him $2.00 per box. The entry for this in the Sales Book is as follows:

Sales Book

JULY 1, 1913

		Shipment to James Garvin #1					1000	00

Thus, Shipment Account assumes the responsibility for the goods, and it is seen that the account also contains the name of the consignee, showing who has custody of the goods. This particular account is also designated "# 1," since every shipment, even those to the same consignee, has a separate account, in order to show the profit or loss on each.

To continue: On the same day Mr. Kirk has to pay $50.00 for carting this shipment of oranges to the depot. The entry for this, on the credit side of the Cash Book, is as follows:

Shipment to James Garvin # 1	$50.00	
Cash		$50.00

(The above Cash Book entry is given in the form of a Journal entry to bring out more clearly the debit and credit.)

Thus, a shipment is charged with its expenses.

On July 10 an account sales is received from James Garvin showing net proceeds of $1200.00 after all his expenses and charges have been deducted.

(1) If a check is received with the account sales, the Cash Book entry is:

Cash	$1200.00	
Shipment to James Garvin #1		$1200.00

(2) If a note is received, the Journal entry is:

Notes Receivable	$1200.00	
Shipment to James Garvin #1		$1200.00

(3) If the account sales merely states, "Proceeds to follow in 30 or 60 days," the Journal entry is:

James Garvin	$1200.00	
Shipment to James Garvin #1		$1200.00

This last entry is made to register against James Garvin the $1200.00 for which he is responsible. This debt is acknowledged in the account sales, although a written acknowledgment in this form is never considered a note.

If any one of the three methods of making settlement is used, the Shipment Account is closed, as upon the receipt of the account sales we either receive payment or know positively the amount the consignee owes.

The Shipment Account now appears:

Shipment to James Garvin #1

1913 July	1	S		1000	00	1913 July	10	C		1200	00
	1	C		50	00						

This shows that the shipment cost $1050.00 and produced $1200.00; hence a gain of $150.00 is to be taken to Profit and Loss Account in closing.

Shipments not Returned. — On the other hand, if at the time of closing the books, no return or account sales has been received for a shipment, it must not be considered a loss. Such a shipment must be considered an asset, as the goods still belong to the shipper and should be counted a part of his inventory.

Rules for First Method. — We can now reduce this system to the following two rules:

1. Charge the shipment with the cost of the goods and all expenses incidental to making the shipment.
2. Credit the shipment upon receipt of the account sales and debit Cash, Notes Receivable, or the consignee, according to the return made.

Objections to First Method. — This method of handling shipments has several important objections. It records the shipment in the Sales Book at a time when it is not a sale, thus improperly increasing the sales of a certain period, and recording the sale at the cost price, when the proceeds from the shipment is the real sale price. Further, a shipment not accounted for is still the property of the shipper, and should be counted as a part of his inventory, a plan which cannot be followed in this method.

Second Method. — A system which overcomes these objections and which at the same time is more comprehensive and generally applicable, is one which requires an auxiliary book known as the "Shipment Book" or "Shipment Ledger." Its form is greatly varied, but it is sufficient if it includes the quantities and values of goods shipped and all expenses paid by the shipper. It is usually a loose leaf book so that shipments accounted for may be taken out and filed. When a shipment is sent out, no entry is made on the regular books, but all the necessary information is registered on a separate page of the Shipment Ledger.

Expenses, such as prepaid freight, cartage, etc., are charged direct to Merchandise or to Cartage or Freight in the Cash Book, and a memorandum is made in the Shipment Ledger. Only upon the receipt of the account sales are the goods considered sold, and an entry is made in the Sales Book, debiting the consignee and crediting Merchandise. If the consignee has sent his check or a note with the account sales, a Cash Book or Journal entry is immediately made, debiting Cash or Notes Receivable and crediting the consignee.

We now turn to the Shipment Ledger, and on the page represent-

ing the shipment we register the amount of the proceeds, figure the profit or loss, take the page out of the book, and file for future reference. The profit or loss so figured is purely auxiliary and does not affect our regular books, as the profit there is registered through the credit to Merchandise in the Sales Book.

This system not only permits of unlimited shipments being easily handled, but it overcomes the objection to the first method. It further saves our regular Ledger from being flooded with various Shipment Accounts.

Illustration. — To illustrate by the transactions previously taken:

1. When the goods are shipped to James Garvin, the only record made is in the Shipment Ledger.

Upon the payment of $50.00 cash for carting the goods a Cash Book entry is made, debiting Merchandise or Cartage and crediting Cash, and a memorandum is made in the Shipment Ledger.

When the Account Sales for $1200.00 is received, a Sales Book entry is made, debiting James Garvin for the merchandise sold. If cash or a note is received at the same time, James Garvin's Account is immediately closed by debiting Cash or Notes Receivable, and crediting James Garvin.

This method is even simpler than the first. It keeps an adequate record through the auxiliary Shipment Ledger of what goods are out on shipment and of the various consignees. Furthermore, in taking an inventory, in addition to the goods actually on hand, reference is had to the amount in the Shipment Ledger, thereby revealing the true amount of inventory.

The following illustration shows a page of the Shipment Ledger:

ALTON B. KIRK COMPANY

No. Shipped to James Garvin, July 1, 1913.

Via P. R.R., Car 71245 Chicago, Ill.

		500 bu. Potatoes	@ $.60	300	00		
			Packing				
			Cartage	15	00		
			Freight	75	00		
July	10	Account Sales	Gain *	110	00*	500	00
				500	00	500	00

* In red ink.

CONSIGNMENTS

Handling of Consignments. — Upon receipt of a consignment a consignee makes no entry upon his principal books, as he may not know the value of the goods and would have no amounts for an entry. He records, however, the receipt of the goods upon a stub in the Account Sales Book, from which he eventually sends an account sales to the shipper.

Any expenditures he may have for this consignment, such as special labor, insurance, storage, cooperage of barrels, etc., he charges direct to the consignment, thereby opening an account in the Ledger for each consignment. When the goods are sold, the consignee debits cash; or if sold on account, he debits the purchaser and credits the consignment.

After the goods are sold the consignee takes his return (commission) by reducing the credit balance of the Consignment Account, debiting the consignment with a percentage of the gross sales, and crediting Commission, a nominal account (a gain in this case).

The Consignment Account is now debited with all expenses, including the commission, and credited with the selling price. The balance must be the amount due the shipper (consignor).

Illustration. — Henry Brown ships to Alton B. Kirk 400 boxes of oranges to be sold for his account.

Alton B. Kirk, upon receipt of the goods, makes the record only upon the stub of his Account Sales Book. He stores the oranges for a week, paying $16.00 to the Storage Co., the entry in the Cash Book being:

Henry Brown's Consignment #1	$16.00	
Cash		$16.00

The oranges are sold at $4.00 per box. If sold for cash, the entry in the Cash Book is:

Cash	$1600.00	
Henry Brown's Consignment #1		$1600.00

If sold on account, the entry in the Journal is:

The Purchaser	$1600.00	
Henry Brown's Consignment #1		$1600.00

As the goods are all sold, Alton B. Kirk can take his commission of 10%. The entry in the Journal is:

Henry Brown's Consignment #1	$160.00	
Commission		$160.00

An analysis of the last two entries clearly illustrates how Commission Account in this case is a gain. The first entry, by crediting Consignment Account with the sale, creates a liability or debt to this account; and the second entry, by debiting the Consignment Account with $160.00, reduces the debt to that extent, and hence is a gain, expressed through the credit entry to Commission.

The Consignment Account in the Ledger now appears:

Henry Brown's Consignment #1

1913						1913					
July	1	Storage		16	00	July	9	Sales		1600	00
	9	Commission		160	00						

The balance, $1424.00, represents a debt to Henry Brown, and if liquidated immediately, the entry in the Cash Book is:

Henry Brown's Consignment #1	$1424.00	
Cash		$1424.00

If not liquidated at once, but an account sales is rendered, stating that the proceeds will follow in 30 days, the entry in the Journal is:

Henry Brown's Consignment #1	$1424.00	
Henry Brown		$1424.00

This is a positive debt of the amount due Henry Brown as acknowledged in the account sales.

At the time either of the last two entries is made, Alton B. Kirk completes the stub and original in his Account Sales Books, detaches the latter, and forwards it to the consignor, Henry Brown. We may now formulate two rules for the handling of consignments, as follows:

RULES

1. Debit the consignment with all expenses, commission, and the net proceeds.
2. Credit the consignment with the amount of sales.

CHAPTER XXI

DEPRECIATION, RESERVES, AND ACCRUALS

THE assertion was made before that though the Trial Balance is a basis of the Six-Column Statement, yet being but a reflex of the Ledger, it is insufficient in determining the present worth or profits or losses of a business. It is necessary to have recourse to certain "supplementary facts" not to be found in the books themselves. The only "supplementary fact" with which we have dealt to date has been the inventory of merchandise. This we have seen to be the actual value taken at the cost price of the merchandise on hand. Likewise, the actual value is taken of any of the assets of our business; and it is by means of the Depreciation, Reserve, and Accrual Accounts that the true "worth" of a business is correctly ascertained and recorded in the books.

DEPRECIATION

Definition of Depreciation. — Depreciation may be said to be the shrinkage in the value of an asset as a result of its use and enjoyment.

Causes of Depreciation. — This depreciation in an asset may be caused by:

1. Its use. (The operation of a machine.)
2. Mere lapse of time.
3. Replacement because of having outlived its usefulness.
4. Natural causes, such as fire and flood.

It stands to reason that it is short-sighted on the part of the proprietor to consider his assets of stable value, and so list them, for there comes a day of reckoning when certain assets must of necessity wear out and become utterly valueless so as to make it imperative that they be replaced. This may require the outlay of considerable cash in perhaps an already poor year, so that the books for that period, instead of showing a profit, may show a loss. The goal constantly striven for in modern business is to have the books show a rising scale of profits, instead of reaching the summits of prosperity

one year and dropping to the depths of financial embarrassment the next. For this reason a management familiar with accounts and the story they tell insists that depreciation of assets be considered every fiscal period, in order that the inevitable loss of the asset (if it be of a destructible nature) be allocated over a period of years approximating the expected life of the asset, rather than burden any one year with the entire cost.

Methods of Determining Depreciation.—There are several methods of determining the annual amount of depreciation, but for our purposes the following is sufficient.

Take for example a machine costing $1000.00, which, by taking into consideration its proper maintenance and repair, will be worthless at the end of ten years. The depreciation can then be computed on a 10% basis for ten years. Our entry on closing the books for the first year is:

Depreciation of Machinery	$100.00	
Machinery		$100.00
Depreciation charged to Machinery		

"Depreciation of Machinery" is a nominal account explaining the decrease in value of an asset, and is debited because it is responsible for such loss.

It is sometimes customary to open a general "Depreciation Account" instead of a separate one for each asset. In that event all depreciations are charged to this one account, and the various assets are credited for the respective amounts.

These accounts would in turn be closed into Profit and Loss in each instance; thus:

Profit and Loss	$100.00	
Depreciation of Machinery		$100.00

or

Profit and Loss	$100.00	
Depreciation		$100.00

After posting the Machinery Account in the Ledger, it appears as follows:

Machinery

				1000	00					100	00
								Balance *		900	00
								* In red ink.			

The true value of the machine thus appears in the account and on the Balance Sheet. At the end of the second year the account stands:

Machinery

				1000	00					100	00
								Balance *		900	00*
				1000	00					1000	00
				900	00					100	00
								Balance *		800	00*
				900	00					900	00
				800	00						
								* In red ink.			

While this is a possible method of recording depreciation, it is not well favored, as "writing down" assets is not considered good accounting practice. There are occasions when it is important that the cost of an asset should appear as the balance of the account; as, for instance, in the case of an adjustment for a fire loss. How then shall we consider this depreciation on our books? The answer is found in the "Reserve" Accounts which we shall now discuss.

Reserves

Definition. — A Reserve Account is a financial account with a credit balance (a liability) created on the books for the purpose of reducing the value of an asset. Thus, it is but an application of the principle that to subtract in bookkeeping we may accomplish the result by adding the amount to be subtracted to the opposite side of that or another account. Thus, in the case above, instead of:

Depreciation of Machinery	$100.00	
Machinery		$100.00

or

Depreciation	$100.00	
Machinery		$100.00

with the resulting account:

Machinery

				1000	00					100	00
								Balance *		900	00
				1000	00					1000	00
				900	00						
								* In red ink.			

We may now have

Depreciation of Machinery	$100.00	
Reserve for Depreciation of Machinery		$100.00

or

Depreciation	$100.00	
Reserve for Depreciation		$100.00

This leaves our Machinery Account unaffected.

Machinery

						1000	00								

and creates the new account:

Reserve for Depreciation of Machinery

														100	00

Our final entry closing the Depreciation Account into Profit and Loss is the same.

The intermediate step of first charging the Depreciation Account is really not essential, and in practice is not used; thus, the entry for our illustration is:

Profit and Loss	$100.00	
Reserve for Depreciation of Machinery		$100.00

By this entry the necessary record is made.

So at any time the value of an asset can be readily ascertained by reference to the two accounts. In a Balance Sheet the asset appears at its original valuation on the left, and in order that the value of the

business be not improperly inflated, the assets are offset on the opposite side by the various Reserve Accounts which appear as liabilities.

At the end of the life of the asset the Reserve Account in our illustration appears as follows:

Reserve for Depreciation of Machinery

						1902 Jan.	1				100	00
						1903 Jan.	1				100	00
						1904 Jan.	1				100	00
						1905 Jan.	1				100	00
						1906 Jan.	1				100	00
						1907 Jan.	1				100	00
						1908 Jan.	1				100	00
						1909 Jan.	1				100	00
						1910 Jan.	1				100	00
						1911 Jan.	1				100	00

Thus, the asset (Machinery) is completely offset by the liability (Reserve for Depreciation of Machinery).

On the purchase of a new and similar machine for cash the entry is:

Reserve for Depreciation of Machinery
    Machinery
Machinery
    Cash

It will now be understood that the purpose of these supplementary facts, and their introduction in our books, is to produce a more exact statement of our business, by properly qualifying the values therein.

We have illustrated this only with reference to fixed tangible assets, such as machinery; but it is necessary that other values of the business, such as Accounts Receivable, be likewise treated.

Accounts Receivable is but another name for the indebtedness to the business, as evidenced by the debit balances to the various customers' accounts appearing in the Ledger. While these are indicative of value owing to the business, it is the general experience that these values are seldom all realized; and by this same experience it is possible for a proprietor to state approximately the percentage of the debts owing to the business which for various reasons will not be paid. These unproductive accounts are known in bookkeeping technology as "Bad or Doubtful Debts." Of course, if an account is irretrievably lost, the account may at once be written off to Profit and Loss, thus:

Bad Debts
James Garvin

After this comes the entry:

Profit and Loss
Bad Debts

The difficulty, however, does not lie in situations of this sort. It is the constant uncertainty as to which particular accounts will not be paid, and last, and most important, the desire that the losses incurred should be charged to the proper fiscal period, which makes the Reserve for Bad Debts Account a necessity to a proper record.

To explain, suppose in 1913 $50000.00 worth of merchandise was sold on open account, and that in previous years the books showed an average loss of 2 % on the Accounts Receivable. On the closing of the books, Jan. 1, 1913, it would not be proper to consider the Accounts Receivable as worth $50000.00, when as a matter of record, year after year, the business has lost 2 %. Furthermore, since the merchandise was sold during the past year, any losses incurred should be borne by that period. Thus, without actually waiting for the debts to become bad, consideration is taken of past experience, and 2 %, or $1000.00, is charged to Profit and Loss Account. What then of the corresponding credit or credits? At this time the various Accounts Receivable appear in good condition and would ordinarily be credited only on settlement of the accounts. It is now that recourse is had to the Reserve for Bad Debts Account, again a financial account with a credit balance, created for the particular purpose in this instance of reducing the book value of Accounts Receivable. The entry is:

Profit and Loss	$1000.00	
Reserve for Bad Debts		$1000.00

This leaves the Accounts Receivable for the time being unaffected, but at the same time records the predetermined loss in a proper period. Later, if James Hadley, who owes the business $50.00, utterly fails, the entry is:

Reserve for Bad Debts	$50.00	
James Hadley		$50.00

This closes out his account, and by the previous use of the Reserve Account, makes it unnecessary to go back and adjust the last year's profits and losses.

Accruals

To continue the practice of allocating the profits or losses to the period wherein they properly belong leads us to a consideration of other items of value, commonly termed "Accrued Items" or "Accruals."

Definition. — Accruals are positive amounts of value which:

(*a*) Have been paid in one period, for an obligation due or applicable to a subsequent period, in which case they are *assets*.

(*b*) Consist in an obligation created and existent in one period, but which will not be discharged until a subsequent period, in which case they are *liabilities*.

For example, under (*a*) we have rent, insurance, advertising, etc., in cases where the amount expended for these items includes not only the period in question, but a subsequent period.

Under (*b*) we have wages, commission, interest on bonds, taxes, etc., in cases where these obligations have been created in the period in question, but for which payment is not to be made until the next period.

Thus it is plain that under (*a*) we have "Accruals Receivable," being positive value to be received, hence "Assets"; and under (*b*), "Accruals Payable," positive value to be paid, hence, "liabilities."

How Accruals are Found. — Such items of accrued value can be ascertained by:

(*a*) An intimate knowledge of the business.

(*b*) Previous Statements of the business.

Handling on the Books. — Accruals may be better understood by considering the manner in which they are handled on the books. Take the following illustrations:

On July 1, the Alton B. Kirk Co. desires to close its books for the six months' period just ended, and to ascertain the profit or loss. On the Trial Balance is the account "Land and Buildings" $40000.00, and yet no account can be found for taxes. The reason becomes evident when it is found that the taxes are never paid until December; but a glance at the last yearly Statement reveals the fact that the taxes are $600.00 per annum. Is it correct to close the books and find the net profit or loss without considering a just proportion of this amount? It is evident that the present period should stand its share of the annual tax loss, which is $300.00; therefore, if this amount has been lost in this period and not paid, it is also a liability. This fact can be recorded in our losses and on our books by the following entries:

Taxes	$300.00	
Taxes Accrued		$300.00
and		
Profit and Loss	$300.00	
Taxes		$300.00

Thus Taxes Account is closed as a loss and Taxes Accrued Account remains open to show the liability.

In December, when the yearly tax bill of $600.00 is paid, the Cash Book entry is:

Taxes Accrued	$300.00	
Taxes	$300.00	
Cash		$600.00

By this entry the liability of Taxes Accrued is canceled and the new tax loss of $300.00 is recorded in Taxes Account, to be later written off to Profit and Loss.

The first two entries mentioned above have the advantage of opening the Taxes Account in the Ledger; and though it may be immediately closed, it remains as a record of the tax cost for the period being closed. Another method, not following Accounting principles so closely, yet having its advantages, is to combine the first two entries into:

Profit and Loss	$300.00	
Taxes		$300.00

This places the loss directly in Profit and Loss and saves the opening of Taxes Accrued Account, and the Taxes Account having no debit remains open to show the liability. By this method the entry in the Cash Book in December is:

Taxes		$600.00	
	Cash		$600.00

The Taxes Account now appears:

Taxes

Dec.	30	CB		600	00	July	1		J	300	00

Thus the liability in Taxes Account of $300.00, carried from July to December, is canceled by the debit $600.00 and the $300.00 balance on the debit side is the new tax loss.

This latter method is the one more commonly used.

To take another illustration:

The same firm, Alton B. Kirk Co., has on its Trial Balance an account with Advertising, showing $1200.00 debit balance. An investigation of this account shows that this $1200.00 was paid out on Jan. 1, for an advertising contract to run two years. Although at first glance this account seems to be a total loss, investigation shows that since but one fourth of the contract has expired, only one fourth has been lost, and the remaining three fourths must be an asset, representing service due the business. Thus:

Advertising

Jan.	1	CB		1200	00						

Of this $1200.00 we desire to register one fourth, or $300.00, as a loss, and to show the balance, $900.00, as an asset. This may be done by either of the following entries:

Advertising Accrued	$ 900.00	
Advertising		$ 900.00

and

Profit and Loss	$ 300.00	
Advertising		$ 300.00

This is similar to the first entries for the Taxes illustration, the Advertising Account closing out when the $ 300.00 is counted as a loss, and the Advertising Accrued Account remaining open to show the asset:

Profit and Loss	$ 1200.00	
Advertising		$ 1200.00
Advertising	$ 900.00	
Profit and Loss		$ 900.00

By this method, regarding the entire $ 1200.00 as a loss and the $ 900.00 as a gain, $ 300.00 is counted as a loss.

Still another method is:

Profit and Loss	$ 300.00	
Advertising		$ 300.00

This method takes the actual loss of $ 300.00 direct to Profit and Loss, and the debit balance necessarily existing in Advertising Account shows the asset as:

Advertising

1913 Jan.	1	CB		1200	00	1913 July	1		J	300	00
								Balance *		900	00*
				1200	00					1200	00
July	1	Balance		900	00						

* In red ink.

Thus it is seen that there are two or three methods of handling accruals on the books, but the second method used in the first illustration, and the third method in the second illustration, are the most satisfactory.

From the illustrations it is seen that it is possible for our nominal accounts to remain open on the books after closing. At such time the nominal account has become temporarily a financial account, as

its nominal value has been closed into Profit and Loss; and the balance still carried by the nominal account is an asset or liability.

The handling of accruals is not difficult, provided each accrual considered is thoroughly understood, both with regard to the amount gained or lost, and the amount of the resulting asset or liability.

Perhaps a brief summary of this chapter may be expedient. We have considered depreciation, reserves, and accruals in order that we may be able to close the books and present Statements of the business that reveal as closely as possible its true condition. It is evident now that the Statement of Profit and Loss taken only from the facts in the books would produce a result that was possibly far from being correct. The determining of what the supplementary facts are and the recording of them on the books, together with the detail necessary to make all the closing entries and balance the accounts, are what makes the closing of the books and the preparation of the Statements one of the most difficult tasks of an accountant. These new considerations have been but supplementary to the original procedure in finding the profit or loss, and closing the books. Now that all of the steps have been discussed in the finding of such profit or loss and closing of books, they may be listed as follows:

To close the Books:

1. Take a Trial Balance of the Ledger.
2. Take an inventory of merchandise.
3. Ascertain the depreciation on all depreciable assets.
4. Ascertain the reserve to be set aside for bad debts.
5. Consider carefully all accruals.
6. Close all nominal accounts into Profit and Loss.
7. Close the balance of Profit and Loss into the Proprietors' Personal Accounts.
8. Close the Proprietors' Personal Accounts into their Capital Accounts.
9. Rule and balance the various financial accounts, reducing them to one debit or credit amount.
10. Take a final Trial Balance, or Balance Sheet.

PROBLEM 36

Using the following data, prepare a Statement of Loss and Gain, a Statement of Resources and Liabilities, make the Journal entries necessary to close the books, and prepare a final Trial Balance, or Balance Sheet.

Trial Balance

H. C. ATLAS MARCH 31, 1913

	H. C. Atlas, Investment			20000	00
	Accounts Receivable	10000	00		
	Notes Receivable	2730	00		
	Accounts Payable			7600	00
	Notes Payable			3650	00
	Real Estate	7500	00		
	Cash	4200	00		
	Merchandise	9300	00		
	Rent			480	00
	Interest	300	00		
	Commission			2300	00
		34030	00	34030	00

NOTE. — The merchandise inventory on hand at the time of closing is $ 10360.00. There is $ 40.00 due for rent but not yet collected by the business. Of the item of Commission $ 1100.00 represents amounts paid H. C. Atlas for service to be rendered after March 31, 1913. There is $ 25.00 for interest due by the business but not yet paid.

PROBLEM 37

From the following Trial Balance prepare Statements of Loss and Gain and Assets and Liabilities; also make the Journal entries necessary to close this set of books. Make a final Trial Balance.

Trial Balance

	H. White			50000	00
	Cash	5000	00		
	Real Estate	11500	00		
	Expense	4200	00		
	Interest	150	00		
	Rent	3600	00		
	Buildings	12000	00		
	Commission			2500	00
	Merchandise	6000	00		
	Notes Receivable	8700	00		
	Notes Payable			3700	00
	Machinery	5000	00		
	Furniture and Fixtures	800	00		
	Wages	1200	00		
	Insurance	500	00		
	Accounts Receivable	2250	00		
	Accounts Payable			4700	00
		60900	00	60900	00

NOTE.—Merchandise inventory, $12000.00. Depreciation as follows: Machinery, 10%; Buildings, 3%; Furniture and Fixtures, 15%.

Of the item of rent, $900.00, or one month's rent, has been paid in advance. Of the Commission on our books, $500.00, although received, is not yet due. One week's wages of $200.00 have not been paid and are not on the books. The Insurance Account shows the premium for one year, of which only two months have been used.

PROBLEM 38

From the following Trial Balance and subsidiary data make the Journal entries necessary to close Q. C. Brown's books.

Trial Balance

	Q. C. Brown			25000	00
	Real Estate	10000	00		
	Machinery	6000	00		
	Furniture and Fixtures	1000	00		
	Accounts Receivable	8000	00		
	Accounts Payable			2500	00
	Notes Receivable	6200	00		
	Notes Payable			5000	00
	Merchandise			400	00
	Wages	1200	00		
	Rent			480	00
	Commission			220	00
	Interest	200	00		
	Insurance	600	00		
	Advertising	400	00		
		33600	00	33600	00

NOTE.—Wages due and not paid, $250.00.
Rent due and not collected, $150.00.
Inventory of goods on hand, $1000.00.
Commission earned but not yet received, $40.00.
The insurance and advertising contracts were yearly contracts, placed six months ago.
Depreciation: On Machinery, 10%.
On Furniture and Fixtures, 15%.
After making the closing entries, present a Proof Trial Balance.

CHAPTER XXII

THE BALANCE SHEET AND PROFIT AND LOSS STATEMENT

At the end of the chapter on "Closing a Set of Books" it was seen that the final step in the process was a test of the equilibrium of the books, which took the form of a final or proof Trial Balance. This is more commonly known as a "Balance Sheet." As a Trial Balance it was of interest only to the bookkeeper in telling him if his books still balanced after closing; but as a Balance Sheet its purpose is more general, in that it combines a statement of the assets and liabilities of the business.

The terms "assets" and "liabilities" are used in their broadest sense. By liabilities are meant not only the outstanding debts of the business, but all financial liability accounts, including those representing the interests of the owners; and in the case of corporations the liabilities include the shareholders' accounts and other accounts of like nature, such as surplus, undivided profits, etc.

Definition. — A broader definition of a Balance Sheet is:

A Statement of the assets and liabilities of a business at a given time, representing the financial accounts of a business remaining open on the Ledger after the books have been closed.

Revealing as it does a Statement of the accounts open on a Ledger after the books have been closed, it must necessarily include not only the results of past records of the books themselves, but the results after inventories, depreciation, reserves, and accruals have been considered and made to appear on the books. It is then a concrete expression of the financial condition of a business. As such a statement, the Balance Sheet has come to be one of the most important instruments in accounting, and is of vital interest to:

1. The manager.
2. The proprietor or stockholder.
3. The creditor.
4. The investor.

The manager, proprietor, and stockholder are naturally interested in a Statement which reveals the solvency facts of the business; and

the creditors and investors under ordinary conditions will neither lend nor risk their money in a concern whose Statements reveal a doubtful condition.

Importance of the Balance Sheet. — The importance of the Balance Sheet is fast being recognized. The prospective creditors particularly the banks, before granting a loan, often demand a Balance Sheet of the prospective borrower, in order to ascertain the condition of his business; and the investor ascertains the growth and condition of a business by a comparison of the successive Balance Sheets. This general use of Balance Sheets is being aided and facilitated by an attempt at uniformity of presentation, in so far as that is possible for businesses of different character.

Form of the Balance Sheet. — The sheet is divided vertically into two equal parts, the assets being listed on the left-hand side and the liabilities on the right. There are two principal methods of listing the assets and liabilities. The first is to list them in what has been termed the order of their liquidity, starting the assets with cash, to be followed by accounts receivable, notes receivable, etc., and ending with such stable assets as machinery, buildings, etc. The liabilities begin with accounts payable, to be followed by notes payable, etc., and end up with the ownership accounts of the business. While this order is very often followed, it is slowly giving way to a principle which considers that assets and liabilities should be listed in the order of their importance and permanency. This usage considers that while Cash, Accounts Receivable, Notes Receivable, etc., are important accounts, they nevertheless represent a constantly changing value, and are necessarily of lesser importance than such items as Plant, Equipment, etc., which, representing as they do the principal values in the business, should be listed on the Balance Sheet so as to be the first items to meet the eye of the reader.

The treatment of the liabilities is similar to the asset side, they being listed according to importance. Accordingly, in the case of corporations the Capital Stock Account is usually placed first, followed by Bonds or Mortgages, then Accounts Payable, Notes Payable, etc., with the Reserve Accounts, and Surplus or Undivided Profits coming at the end. In the case of an individual or firm Balance Sheet, it is customary to state the Capital of the proprietors of the business as the last item.

This second method of presenting a Balance Sheet groups the assets into the following three classes;

Fixed
Current
Deferred

This form is not applicable to the Balance Sheets of banks, trust companies, building and loan associations, etc., but applies rather to manufacturing concerns.

Fixed Assets. — "Fixed Assets" are those which are constant and stable, whose balances show very little variation; for example:

Land	Buildings
Machinery	Tools, etc.

These are not called "fixed assets" because they are immovable, for locomotives and steamships and the like are equally fixed in the accounting sense.

Current Assets. — "Current Assets" are those which are readily converted into cash, whose balances are constantly changing. They are sometimes called "quick" or "available" assets. Examples of these are:

Cash
Goods on hand, both raw and finished material
Notes Receivable
Accounts Receivable

Deferred Assets. — "Deferred Assets" are items of value to the business, neither fixed nor readily salable, such as improvements that are to be written off over a number of years, good will, patent rights, etc.

A group of assets apt to be found either in the "current" or "deferred" class is represented by such accounts as interest paid in advance, advertising, insurance premiums, taxes paid in advance, etc. This may be regarded as deferred in a strict sense of the word and so classed under "deferred assets." On the other hand, they may be regarded as prepayments of cash, and are therefore just as available as cash or other current assets. A conservative classification is to place them with the current assets unless payments have been made for improvements, or contracts extending over a period of several years, in which case it seems preferable to assemble them with the deferred assets.

Liabilities. — As has been mentioned before, the first liability to be listed in the case of corporations is the Capital Stock. The next

liability to be listed is the amount of bonds, or mortgages. The current liabilities then follow, which include:

Notes Payable
Accounts Payable
Unpaid taxes, wages, etc.
Unpaid dividends, etc.

Reserves. — Another group of liability accounts are the Reserves, such as Reserve for Depreciation, Reserve for Bad Debts, etc., which, when placed on the liability side of the Balance Sheet, naturally follow current liabilities. Although these accounts appear on the liability side of the Ledger, their purpose is merely to reduce the value of certain assets; and so it has become a common practice for the larger companies in presenting their Balance Sheets to deduct the amount of such Reserves from the value of the particular assets so affected. Both methods of presenting the Reserves are shown in illustrations II and III.

In the Balance Sheet of an individual or firm the present worth should be placed last among the liabilities; and in the Balance Sheet of a firm the interest of each individual partner should be listed separately.

If the Balance Sheet is that of a corporation, such accounts as "Surplus," "Undivided Profits," and "Profit and Loss" may be found, representing the profits of the business. It is important that the profit of the period represented by the Balance Sheet should be clearly shown.

ILLUSTRATION I

Balance Sheet

ALTON B. KIRK — DECEMBER 31, 1913

Real Estate	20000	00	Notes Payable			2400	00
Horses and Wagons	3000	00	Accounts Payable			4900	00
Furniture and Fixtures	500	00	Wages Accrued			200	00
Cash	4250	00	Taxes Accrued			120	00
Notes Receivable	950	00					
Accounts Receivable	4100	00					
Invt. of Merchandise	7600	00	Alton B. Kirk				
Advertising	600	00	Past Worth	32250.00			
Unexpired Insurance	90	00	Profits for Year	1220.00		33470	00
	41090	00				41090	00

Illustration II

Balance Sheet

A. B. C. Foundry Co. July 31, 1913

Land		50000	00	Capital Stock		100000	00
Buildings		14000	00	Accounts Payable		4200	00
Machinery		12000	00	Notes Payable		8105	00
Boilers and Engines		6000	00	Payroll Accrued		450	00
Tools		800	00	Taxes Accrued		180	00
Furniture and Fixtures		1000	00	Reserve for Depreciation, on:			
Horses and Wagons		800	00	Buildings		80	00
Investments		25000	00	Machinery		240	00
Cash		10100	00	Boilers and Engines		51	30
Notes Receivable		1000	00	Tools		25	60
Accounts Receivable		4000	00	Furniture and Fixtures		50	00
Inventories of Raw and Finished Material		6500	00	Horses and Wagons		19	20
Advertising		1500	00	Bad Debts		198	00
Insurance		900	00	Surplus		10000	00
				Undivided Profits			
				Bal. 7/31/12	8460.00		
				Less Dividends to 7/31/13	8000.00		
					460.00		
				Net Profit, year ended 7/31/13	9540.90	10000	90
		133600	00			133600	00

Illustration III

Balance Sheet

A. B. C. Foundry Co. — July 31, 1913

Land		50000	00	Capital Stock		100000	00
Buildings	14000.00			Accounts Payable		4200	00
Less Depreciation	80.00	13920	00	Notes Payable		8105	00
				Payroll Accrued		450	00
Machinery	12000.00			Taxes Accrued		180	00
Less Depreciation	240.00	11760	00	Surplus		10000	00
				Undivided Profits			
Boilers and Engines	6000.00			Bal. 7/31/12	8460.00		
Less Depreciation	51.30	5948	70	Less Dividends			
				to 7/31/13	8000.00		
Tools	800.00				460.00		
Less Depreciation	25.60	774	40	The Net Profit			
				for the Year			
Furn. and Fixtures	1000.00			ended 7/31/13	9540.90	10000	90
Less Depreciation	50.00	950	00				
Horses and Wagons	800.00						
Less Depreciation	19.20	780	80				
Investments		25000	00				
Cash		10100	00				
Notes Receivable		1000	00				
Accts. Receivable	4000.00						
Less Res. for Bad							
Debts	198.00	3802	00				
Inventories							
Raw and Finished Material		6500	00				
Advertising		1500	00				
Insurance		900	00				
		132935	90			132935	90

Profit and Loss Statements

In close relation to the Balance Sheet, and a necessary supplement thereto, is the Profit and Loss Statement, variously known as a "Statement of Losses and Gains," "Income Sheet," etc. The purpose of such a Statement is to disclose a detailed history of the profits and losses of a business for a given period. Heretofore we have presented such facts in the profit and loss columns of the Six-Column Statement. When we first considered the Six-Column Statement, it was mentioned that while it was used in teaching to distinguish between loss and gain and asset and liability items, yet it was too technical for practical purposes. We have already seen that the asset and liability columns are presented in a separate Statement called the "Balance Sheet"; and similarly the loss and profit columns are separately presented.

These Profit and Loss Statements take many forms, varying from a mere reproduction of the loss and profit columns of the Six-Column Statement to an elaborate Income Sheet. The form must be dependent upon the particular kind of business, but the purpose of the Statement is accomplished if the sources of profits and losses are clearly revealed.

To illustrate, take the following:

Trial Balance

Alton B. Kirk — December 31, 1913

	Alton B. Kirk			20000	00
	Cash	4760	30		
	Land	8000	00		
	Buildings	6000	00		
	Merchandise	1000	70		
	Insurance	50	00		
	A. R. Harris	650	00		
	Interest			5	40
	Expense	125	00		
	Repairs	60	00		
	Wages	3350	00		
	Commission			300	00
	Merchandise Discount			65	60
	J. R. Bell			2000	00
	A. C. Carey			1625	00
		23996	00	23996	00

Present a Statement of Profit and Loss from the above Trial Balance, taking into consideration the following:

A reserve of 3% for depreciation on buildings is to be created.

The merchandise inventory is $5000.00.

ILLUSTRATION I

Semi-annual Statement of Losses and Gains

ALTON B. KIRK — DECEMBER 31, 1913

Losses			Gains		
Merchandise	1000	70	Interest	5	40
Insurance	50	00	Commission	300	00
Expense	125	00	Merchandise Discount	65	60
Repairs	60	00	Merchandise Inventory	5000	00
Wages	3350	00			
Reserve for Depreciation on Buildings	180	00			
Net Gain *	605	30*			
	5371	00		5371	00

* In red ink.

It will readily be seen that this Statement is similar to the loss and profit columns of the Six-Column Statement; at the same time, it would have very little meaning to one unfamiliar with bookkeeping.

A much better form of presenting these facts is shown at the top of the following page.

The second illustration, which presents a much clearer picture of the profit and loss facts, contains the same amounts that are in the first illustration, with the exception that the Merchandise, Merchandise Discount, and Inventory Accounts have been analyzed. Thus, instead of showing Merchandise with a debit balance of $1000.70 as a loss, and the Inventory of Dec. 31, 1913 — $5000.00, as a gain, the component parts of these accounts are taken and listed, as "Sales," "Purchases," "Inventory, June 30, 1913," and "Inventory, Dec. 31, 1913." Merchandise Discount has been similarly treated and its debit and credit sides are presented as "Discount Allowed" and "Discount Received."

ILLUSTRATION II

Semi-annual Statement of Profit and Loss

ALTON B. KIRK — DECEMBER 31, 1913

Sales		18000.00		
Less Discounts Allowed		100.00	17900	00
Inventory, June 30, 1913		6300.00		
Purchases	12700.70			
Less Disc't Rec'd	165.60	12535.10		
		18835.10		
Less Inventory, Dec. 31, 1913		5000.00	13835	10
Gross profit on Merchandise			4064	90
Less				
Insurance		50.00		
Expense		125.00		
Repairs		60.00		
Wages		3350.00		
Reserve for Depreciation on Bldgs.		180.00	3765	00
Net profit on Merchandise			299	90
Add				
Interest Received		5.40		
Commission Received		300.00	305	40
Net profit of business			605	30

The second illustration is the form of Statement commonly used in practice. It reveals the important profit and loss amounts, such as the volume of sales and purchases, the inventories at the end of the last period and at the present time, the amount of discount allowed and received, etc. Its presentation is facilitated in most businesses by the elimination of the accounts "Merchandise" and "Merchandise Discount," and the use in their stead of the accounts "Purchases," "Sales," "Discount on Purchases," and "Discount on Sales."

CHAPTER XXIII

CAPITAL AND REVENUE

It is with the close of the discussion of the Balance Sheet that the first glimpse of accounting in its higher sense, and the long vista of its possibilities, opens up before us. Here for the first time, with the proper interpretation of the accounts constituting the Statement we have a bird's-eye view of the business, and we realize that these are the solvency facts of which the "Capital" is composed. In close relation to our Balance Sheet, and a necessary supplement thereto, we meet the Income Sheet, another form of Statement, which discloses in its "Revenue" facts a somewhat detailed history of the profits and losses of the period just closed.

This leads us to a careful consideration of our chapter, Capital and Revenue.

Capital. — Capital is the surplus of assets over liabilities, and comprises in its two component parts all assets on one side and all liabilities on the other. This excess represents the indebtedness of the business to its proprietor or proprietors for the unimpaired investment, plus the accumulated profits. If, by any chance, the liabilities should exceed the assets, there would be no Capital, but a deficit; and the business would be insolvent, the deficit indicating the indebtedness of the proprietor or proprietors to the business for the impaired investment.

Revenue. — Revenue is the amount earned by the carrying on of an undertaking and is the excess of the profits and income over the losses and expenses. If expenses and losses exceed the profits and income, there is no revenue, but rather a resulting decrease in Capital, either by a lessening of the surplus or by an actual deduction from the Investment.

Importance of Distinction. — Too much stress cannot be laid on this subject of Capital and Revenue and on the proper distinction which should be made between them. As will be later seen it is the confusion of these two classes of accounts which lets down the bar of strict business principles and opens up endless possibilities for

misleading statements. At the outset it may be of assistance to call attention to the fact that in Capital Accounts we have again the Financial (Asset and Liability Accounts), and in the Revenue Accounts we recognize the analogy to the Nominal (Profit and Loss) Accounts, with which we are now familiar. We are now treating of them, however, in a way which involves a finer distinction between charges so nearly on the line of both Capital and Revenue. Their correct interpretation is largely dependent on an intimate knowledge of the accounts involved, and what they represent, but the following general tests may prove of assistance if intelligently applied:

TESTS

1. Is the expenditure one that increases the permanent value of the property?
2. Does it increase the output or capacity of the plant?
3. Is the property simply repaired or has there been an addition? Has it merely been kept up to its standard, or is the additional work or expenditure an asset?
4. Is the new item temporary, or permanent?
5. Has the work included charges part of which should be borne by a subsequent period?

Applications of Above Tests. — 1. Take, for example, our first test. As the owner of a dwelling house, we have painted and papered it throughout and made sundry necessary repairs in order to retain a tenant. Have we increased the income on our investment or increased the permanent value of our asset? If so, it is a "Capital Charge" (*i.e.* a debit to some Capital Account); if not, it is a "Revenue Charge" (a debit to some Revenue Account). Being an expenditure merely for the proper maintenance of our premises, it should then be charged to some repair account (Revenue). If this same house were later remodeled into an apartment house, increasing our income three or four fold, the cost of such remodeling would indisputably be charged to Capital.

2. We have machinery in our factory now capable of producing 1000 units in an hour. We purchase at considerable cost a patent device, which, when attached to our machines, considerably increases their working capacity, so that they now turn out 1200 units an hour. Surely such an expenditure is not a loss, increasing as it does the value of our plant. Therefore we charge it to Machinery or some such Capital Account, thereby adding to the value of our assets.

3. These same machines, as a result of wear and tear, after a certain period drop to a production of 1150 units an hour. By replacing the worn-out parts, etc., they are brought to their normal producing capacity. Has their value been thereby enhanced, or have they only been made to maintain their standard of efficiency? Undoubtedly, the latter, and therefore the expenditure should be borne by a Repair Account (Revenue).

4. The freight shed of our plant has been destroyed by fire. A temporary one is hurriedly erected for use while our new building is in process of construction. Shall this temporary shed, costing $2500.00, be listed in our Balance Sheet as an Asset (charged to Capital) or regarded as a loss (charged to Revenue)? Is it productive of revenue? Has it increased the value of our properties? The answer is that it is a necessity to the completion of our new building, and, furthermore, it has been a means of producing revenue; hence, from a strict accounting standpoint, it should be charged to the cost of our new building (Capital). As a matter of business policy this charge would probably be made to a Revenue Account.

The importance and the difficulty of ascertaining Capital and Revenue facts can now be more readily understood. It is strongly urged that in making the original entry care in properly distinguishing between them be exercised and expressed by the intelligent caption of the accounts to be charged. The character of the charge should be clearly indicated by the name given the account, so that in taking Statements from our Ledger, the proprietors, investors, or creditors will not be misled by inflated assets on the Balance Sheet, and corresponding decreased losses on the Income Sheet which is the effect of an incorrect charge to Capital. Far better be it to err on the right side by charging as Revenue losses what should have been Capital expenditures, though this is equally reprehensible from an accounting standpoint.

CHAPTER XXIV

COLUMNAR BOOKS

A NOTICEABLE feature in a study of accounting is the gradual evolution of principles and the possibilities of general application which the elasticity of these principles permits.

The keystone of our accounting structure is the rule of debit and credit, and we have seen that its use is in no way restricted to the general Journal, but is equally effective in its operation on the divisions of that book — viz. the Purchase Book, Sales Book, Cash Book, and Bill Book.

The efficiency of specialization has not been overlooked in the science of accounting, and it has been found that the actual mechanical work of recording transactions can be greatly facilitated by a further division in the above-named books themselves. This method has been carried also to the general Ledger. Just as purchases and sales were segregated, so the parties involved in these transactions have been taken out of the Ledger and grouped in two general classes and kept in separate books or separate parts of the same book, viz. the *Creditors' Ledger*, — containing the accounts with all the creditors of the business, — and likewise a book for the customers' accounts, called the *Customers' Ledger*. The remaining accounts, property, nominal, etc., continue in the general Ledger. The question naturally arises as to the effect on this book of removing from it all these accounts, and the apparent impossibility of testing its equilibrium by a Trial Balance. But provision has been made for this by what are known as *Controlling Accounts*, *i.e.* accounts in the general Ledger whose balances control or summarize the balances in the subsidiary Ledger or Ledgers. Thus, the Creditors' Controlling Account (or Accounts Payable Account, as we shall term it) indicates by its balance the total balances of all the creditors' accounts in the subsidiary Creditors' Ledger; and similarly the Customers' Controlling Account (to be known as Accounts Receivable) summarizes in its balance the balances of all the customers' accounts in the subsidiary Customers' Ledger.

Purchase Book

Date		L. F.	Name of Creditor	For What	Amount Credit		Sand		Coke		Copper	
				5000 lb. Copper @ $ .13								
May	1		Mineral Supply Co.	100 pigs Iron .75								
				75 lb. Zinc .06	729	50					650	00
			City Improvement Co.	Real Estate	20000	00						

Purchase Book

Oil	Iron	Zinc	Coal	Phosphorus			Sundries		L. F.
							Account	Amount	
	75 00	4 50							
							Real Estate	20000 00	

In discussing the Ledgers first in the treatment of Columnar Books, the customary explanation of a set of books is reversed; but it is in posting that these books have their greatest effectiveness, as will be divined from the definition and the illustrations to follow.

Columnar Books are books of original entry consisting of a series of parallel columns, the titles of which are General Ledger Accounts.

Books Used.—The books of original entry used are:

1. Purchase Book.	3. Cash Book.	5. Bill Book.
2. Sales Book.	4. PettyCash Book.	6. General Journal.

It will be noted that with the exception of the Petty Cash Book, to be explained in a later paragraph, they are identical with those already used, not only similar in name, but also in purpose. The sole difference is in their operation.

Take for instance the Purchase Book. Instead of having one column for the merchandise debit as formerly, the merchandise now consists of a number of commodities, all of which are debits; and are indicated by several parallel columns used for sand, coke, copper, etc., the corresponding credits being found in the "amount credit" column opposite the creditor's name. Thus, the first entry in the illustrative Purchase Journal is as follows:

Bought of the Mineral Supply Co.:

5000 lb. Copper	@ $.13
100 pigs Iron	.75
75 lb. Zinc	.06

Expressing it in the form of a Journal entry it is:

Copper	$650.00	
Iron	75.00	
Zinc	4.50	
Mineral Supply Company (Creditor)		$729.50

Any number of purchases are recorded in the same manner, so that when the time comes to post, instead of posting each purchase of iron, zinc, copper, etc., to the debit of their respective accounts, the columns are totaled and the amounts posted to the General Ledger. In order that these may have their corresponding credit in that book the column "amount credit" is totaled. This is the total amount purchased from all the creditors, and is posted to the credit of "Accounts Payable Account" in the General Ledger

which is the Controlling Account of the Creditors' Ledger. As each creditor, as found in the "Name of Creditor" column, is credited in his account in the Creditors' Ledger with the amount opposite his name in the "Amount Credit" column, the sum of all these credits necessarily equals the amount posted to the credit of the Accounts Payable Account in the General Ledger; hence, the control. The number of the Ledger page on which the creditor's account appears is noted in the Folio column.

Summary Entry. — The posting of a book of original entry to the General Ledger may be accomplished by a summary entry, a Journal entry made at the base of the book about to be posted, comprising a list of the totals of the debit and credit columns. Thus, the summary entry of our Purchase Book is:

Sand
Coke
Copper
Oil
Iron, etc.
Accounts Payable (Amount Credit Column)

All these accounts are posted to the General Ledger, and, as was explained before, the amount credited to "Accounts Payable" Account in the General Ledger equals the sum of the individual credits to the Creditors' Ledger. The summary entry serves the additional purpose of showing whether the book of original entry is in balance.

Sundries. — The columns marked "Sundries" take care of those miscellaneous items whose infrequent purchase or unimportance does not warrant the ruling of separate columns. But each account therein, being in substance a debit columnar heading, is posted individually to its account in the General Ledger and is included in the summary entry with the other debit entries.

Thus the second entry in the illustration is:

Purchased real estate for $20,000.00 from the City Improvement Company.

The Purchase Book is used to record all purchases of the business, whether on account, by cash, or by note. If on account, it appears only in the Purchase Book; if for cash, in the Cash Book and Purchase Book; and if by note, in the Bill Book (or if not used, in the General Journal) and the Purchase Book.

Sales Book

Date		L. F.	Name of Customer	Explanation	Amount Debit		Credit Accounts									
							Iron Castings		Sand Blast Castings		Brass Castings		Phosphorus Bronze Castings			
May	2		Alfred Salem		50	00	8	50	11	50	30	00				

Cash Debit

Date		L. F.	Account	Explanation	Debit				Credit			
					Net Cash		Discount		Customers' Ledger		General Ledger	
May	6	(1)	Alfred Salem	Paid bill of 2d inst.	47	50	(M) 2	50	50	00		
	6	(2)	Notes Receivable	Discounted at bank	49	75		25			50	00

Cash Credit

Date		L. F.	Account	Explanation	Credit				Debit			
					Net Cash		Discount		Creditors' Ledger		General Ledger	
May	6	(1)	City Improvement Co.	Paid bill of 1st inst.	20000	00			20000	00		
	6	(2)	Mineral Supply Co.	Paid bill of 1st inst.	693	02	(M) 36	48	729	50		
	7	(3)	Petty Cash	For cash drawer	50	00					50	00
	31	(4)	Stationery and Printing	From Petty Cash	3	00					3	00
		(5)	Postage	From Petty Cash	2	00					2	00
		(6)	Office Supplies	From Petty Cash	8	00					8	00
		(7)	Factory Expense	From Petty Cash		00					5	00

Sales Book. — The Sales Book in its operation is in all respects similar to the Purchase Book. The merchandise sales are divided into various classifications by devoting a separate column to each. Instead of the one credit column, there are several, as in the illustration, used for iron castings, sand blast castings, etc., the customer being debited in each instance with the total amount of his purchase as shown in the "Amount Debit" column. To illustrate:

May 2, 1913. Sold to Alfred Salem:

Iron Castings	$8.50
Sand Blast Castings	11.50
Brass Castings	30.00

Alfred Salem is debited and the various commodities credited, so that a repeated number of similar transactions can be posted to the General Ledger by again totaling the columns and having this summary entry:

Accounts Receivable (Amount debit)
Iron Castings
Sand Blast Castings
Brass Castings
Phosphorus Bronze Castings

The customers are individually debited in the Customers' Ledger.

The Sales Book is used to record all sales of the business, irrespective of the terms.

The Cash Book is a duplication of the older and simpler form, with additional columns to indicate to which Ledger the account should be posted. The "Net Cash" column on the debit side of the book handles the cash coming in, less any discount (also debit); and the account appearing in the Account Column is credited by extending it in the Customer's Ledger Column or General Ledger Column, according to whether it is a Customer's or General Ledger Account.

May 6. Alfred Salem pays his bill of the 2d inst., less 5 % discount. To journalize this we have:

Cash	$47.50	
Discount	2.50	
Alfred Salem		$50.00

The Cash Book entry, as will be noted, is similar, the several columns being used for the debit and credit.

A thirty-day note for $50 is discounted at bank the same day, the entry for which is shown in illustration (2). When we are ready to post, we add the columns and make the following summary entry:

Cash
Discount
    Accounts Receivable
    General Ledger (posted)

The discount column is here used for both bank discount and merchandise discount. If sufficient items of both were to occur in the business, it would be advisable to open separate columns. In the illustration the merchandise discount is indicated by "M."

There is no account in the General Ledger as "General Ledger Account," and it is used in the summary entry because it is necessary to its equilibrium. The items of which it is composed are the accounts already in the General Ledger, which are posted individually from the Account column of the Cash Book. All the accounts appearing therein are posted as credits either in the Customers' Ledger or General Ledger.

To illustrate the credit side of the Cash Book, suppose we pay the City Improvement Co. for the real estate purchased on May 1.

Suppose we pay the Mineral Supply Co., less 5 % discount.

The summary entry for this side of the book is :

Accounts Payable
General Ledger (posted)
    Cash
    Discount

Petty Cash Book. — The name of this book indicates its principal use, *i.e.* the handling of petty cash items, cash drawer expenditures too small and too numerous to be handled in the general Cash Book. Very often it is not used as a book of original entry, but merely as a book auxiliary to the general Cash Book; in either case it is nothing more nor less than a record of "cash drawer" transactions, columnized for convenience. The book consists of two distinct parts, the first two columns to record the date and amount of receipts, and the rest of the book to handle the expenditures.

Thus, on May 7, $50.00 is put into the Cash Drawer. It is entered on the credit side of the Cash Book, charged to Petty Cash (3), and at the same time entered in the receipts column of the Petty Cash Book (1).

Petty Cash

Receipts				Date		L. F.	Explanation	Amount Credit		Debit											
Date		Amount								Stationery and Printing		Postage		Office Supplies		Stable Expense		Office Expense		Factory Expense	
May	7	(1) 50	00	May	8	(2)	Paid Printing bill, etc.	5	00	3	00	2	00								
	31	(5) 18	00			(3)	Rubber bands, clips, etc.	8	00					8	00						
						(4)	Window Cleaner	5	00											5	00
								18	00	3	00	2	00	8	00					5	00
							Balance *	50	00*												
								68	00												
June	1	50	00																		

* In red ink.

May 8. The following expenditures are made (2):

$2.00 for postage
$3.00 for printing

May 9. Purchase sundry office supplies, $8.00 (3).

May 25. Have the windows in the factory cleaned, $5.00 (4).

The above entries are made as indicated in the illustration.

Imprest System. — If the book is handled as an auxiliary book to the Cash Book, and not as a book of original entry, what is known as the Imprest System of posting must be used, viz. to impress or transfer on our Cash Book the entries as made on the Petty Cash Book. This makes it a collector of petty items for the period, to be transferred in total to the Cash Book at the end of the period. Thus, in the illustration on the credit side of the Cash Book the accounts "Stationery and Printing" (4), "Postage" (5), "Office Supplies" (6), and "Factory Expense" (7), are charged with their respective amounts of cash as appearing in the Petty Cash Book. But these items have already been paid from the cash drawer, and being recorded in both books, it appears that they have been paid twice. Therefore, the cash drawer must be reimbursed for the amount expended, $18.00, and the Cash Book having now absorbed these accounts, we regain the original Petty Cash Book balance by entering the $18.00 in the receipt column (5) and balance as shown.

Petty Cash Book as a Book of Original Entry. — By treating it as a book of original entry, a summary entry may be made as in the other books and posted direct to the accounts in the General Ledger, thus:

Stationery and Printing
Postage
Office Supplies
Factory Expense, etc.
Petty Cash

Voucher System. — There is a third system of handling petty cash which is known as the "Voucher System." A definite amount of cash is placed in the cash drawer, say $100.00, of which no record is made, not even in the Cash Book itself.

For every expenditure of petty cash there must be an original voucher, signed by the manager, or some one in charge, authorizing the payment and showing the reason for it, or the account to be charged. Whenever cash is balanced, there must be in the cash

drawer either $100.00 in the form of cash, or vouchers to that amount. When it is desired to post, the vouchers are classified as to accounts, and the total expenditures for the various accounts are listed on the credit side of the Cash Book, exactly as is done through the Imprest System. The Voucher System may be used with or without a Petty Cash Book, and the posting or charging of the accounts may be accomplished either from the vouchers themselves, as explained, or from the Petty Cash Book by the "Original Entry" method.

A Bill Book similar to the one explained earlier in the book may be used in a Columnar Set as a book of original entry, but in the problems given the notes receivable and notes payable are recorded in the General Journal, and the Bill Book is used only as auxiliary.

General Journal. — The debit and credit columns of the General Journal are subdivided in each instance into columns for Creditors, Customers, and General Ledger Accounts. It has come to be used for notes, drafts, adjustment, and closing entries, and therefore necessarily deals with the three classes of accounts.

Thus, when Salem on May 6 gives his 30-day note in payment of his bill of the 2d instant, the entry in the Journal is made by debiting Notes Receivable on the left of the page in the General Ledger Column and crediting Alfred Salem on the right-hand side of the page in the Customers' Ledger column.

At the end of the period these several columns are totaled and the summary entry made as follows:

Accounts Payable
Accounts Receivable
General Ledger (posted)
General Ledger (posted)
Accounts Receivable
Accounts Payable

As a result of the use of these summary entries in the several books, it is possible to strike off a complete Trial Balance from the General Ledger without reference to the subsidiary Ledgers. This is, of course, only possible because of the columnar totals making up the summary entry, and it is these columns which facilitate the work of the bookkeeper by avoiding a constant repetition in journalizing.

The posting of the General Ledger debits and credits from the various books has been illustrated by means of the summary entries, but

General Journal

Debit							Accounts and Explanation		Credit					
Creditors' Ledger		Customers' Ledger		General Ledger					General Ledger		Customers' Ledger		Creditors' Ledger	
							May 6, 1911							
				50	00		Notes Receivable							
							Alfred Salem				50	00		

it will be readily seen that a summary entry need not be made, and in fact seldom is made, the postings being made direct from the column totals.

For "Columnar Books" problems see "Principal Problems" II and III, at the end of the book.

CHAPTER XXV

REVENUE ACCOUNTS

Profit and Loss Account. — We have learned that one of the chief purposes of bookkeeping is to ascertain the profit or loss of a business and the sources of such profit or loss. Further, that the Profit and Loss Account reflects in its balance a summary of the balances of all the nominal accounts in the Ledger. Therefore, for all ordinary purposes it seems that this account itself should give us the desired information.

Insufficiency of the Profit and Loss Account. — On account of the increasing complexity of business enterprise, however, comprising in its many details the development of a product through all its processes from department to department, it becomes imperative that the proprietor be apprised of the costs and profits of his various departments in greater detail than the one Profit and Loss Account affords. If he would conduct his business intelligently, he must know:

1. The volume of business transacted in each department.
2. The expenses involved in each department.
3. The proceeds of the individual departments.
4. Those general expenses which cannot be directly applied to any of the departments.
5. The net result of the operation of his plant as a whole.

Not that this information is not available in a Profit and Loss Account. But it is necessary to separate first the numerous items under Profit and Loss and classify them under their proper headings, to arrive at any intelligent result. Why not classify them in the first place and avoid this unnecessary confusion? This may be accomplished by disintegrating what we know as the Profit and Loss Account, comprising the Revenue facts of a business, into such component parts as the particular needs may dictate.

Let us take as the hypothesis a large business engaged in the manufacture of a class of goods involving an expensive plant, where the Factory, Sales Room, and Executive Offices occupy the same build-

ing. It is desired by the managers to have authentic information of the costs and proceeds of each department. We therefore open:

1. Manufacturing Account.
2. Trading Account.
3. Administration Account.
4. Profit and Loss Account.

The following are pro forma outlines of these accounts:

Manufacturing Account

Opening Inventory	Closing Inventory
Raw Materials	Raw Materials
Goods in Process	Goods in Process
Finished Goods	Finished Goods
Purchase of Materials	Stocks of Fuel, etc.
Unproductive Labor	Discounts on Purchases
Packages	Balance
Productive Labor	(Being the cost of the manufactured goods sold and carried to the debit side of the Trading Account)
Fuel	
Heat, Light, and Power	
Water	
Repairs to Machinery and Tools	
Repairs to Buildings	
General Repairs	
Factory Expense	
Insurance	
Taxes	
Freight (Factory Material)	
Cartage (Factory Material)	
Reserve Accounts	
Accrued Mfg. Expenses	

Trading Account

Balance (from Manufacturing)	Sales (less Returns and Allowances)
Discounts on Sales	
Reserve for Discounts on Sales	
Salesmen's Salaries and Expenses	
Advertising	
Freight } Outbound	
Cartage } Outbound	
Reserves and Repairs (applying to Trading)	
Balance (being the Gross Trading Profit carried to credit of Profit and Loss Account)	

Administration Account

Salaries of Officers and Clerks	Balance (carried to debit side of Profit and Loss Account)
Bonding of Employees	
Office Expense	
General Expense	
Postage	
Stationery and Printing	
Telephone	
Reserve for Depreciation of Office Furniture	

Profit and Loss Account

Balance from Administration Account	Balance from Trading Account
Interest on Bonds	Rentals
Charities	Interest (earned)
Bad Debts	
Reserve for Bad Debts	
Bank Discount	
Extraordinary Losses	
Balance { Proprietor or Dividends / Surplus	

By reference to the illustration it is seen that the accounts have been grouped according to the department to which they are most intimately related. Thus, just as Merchandise was charged in the earlier problems with freight, in order to ascertain the cost of the goods, so here the Manufacturing Account is charged with the merchandise. It is logical in order to find the cost of the manufactured goods sold to ascertain first the material on hand, plus additional purchases and additional cost of manufacturing, as exhibited by the debits to our account; and after deducting the discount on purchases, subtract the material on hand (raw, in process, and finished) on the credit side of the account.

If we take the finished goods entirely from the manufacturing department and do not include this inventory in manufacturing, that account then shows the cost of manufacturing the goods, both sold and unsold; or in other words, the cost of all the goods manufactured.

Trading. — By charging Trading Account with the cost of manu-

facturing the goods sold, together with the appropriate departmental costs, we can, by deducting this total from the sales less returns and allowances, ascertain the gross trading profit. This profit is naturally the chief item appearing on the credit side of the Profit and Loss Account, and is offset by such revenue losses as cannot be properly allocated to the other accounts, examples of which are given above.

The Administration Account is more essentially a subheading to the Profit and Loss Account than the other two. It handles only those expenses which occur in the management of the business as a whole, and its balance is carried directly to Profit and Loss.

Throughout these accounts there appear certain items, the proper classification of which present problems not easy of solution. Their treatment varies with the thought of the accountant in charge. A few of them are:

1. Shall rents received from leasing a part of the factory be crediting to Manufacturing, or to Profit and Loss?
2. Shall taxes, if on the factory, be charged to Manufacturing, or direct to Profit and Loss as a reduction of net earnings?
3. Similarly, the Reserves for Depreciation.

We mention these only as an example of what must be considered in treating Revenue Accounts.

It is understood, of course, that the pro forma outlines given include the accounts actually appearing in the Ledger, which have been previously closed into Manufacturing, Trading, Administration, and Profit and Loss by Journal entry. Thus:

Inventory
- Raw Materials

Manufacturing
- Inventory
- Purchases
- Unproductive Labor
- Packages
- Productive Labor
- Fuel
- Heat, Light, and Power
- Water
- Repairs to Machinery and Tools
- Repairs to Buildings

General Repairs
Factory Expense
Insurance
Taxes
Freight
Cartage
Reserve Accounts
Expense Accruals

Discount on Purchases
Goods in Process
Finished Goods

Manufacturing

Trading

Discount on Sales
Reserve for Discount on Sales
Salesmen's Salaries and Expenses
Advertising
Freight
Cartage
Reserves
Repairs (Trading)

Sales

Trading

Administration

Clerks' Accounts
Officers' Accounts
Bonding
Office Expenses
General Expense
Postage
Stationery and Printing
Telephone
Reserve for Depreciation for Office Furniture

Profit and Loss

Administration
Interest on Bonds
Charities
Bad Debts

Reserve for Bad Debts
Bank Discount
Extraordinary Losses

Trading
Rentals
Interest

Profit and Loss

Profit and Loss

Proprietor
Dividends
Surplus

It will be seen that the subject of Revenue Accounts has to do with the closing of a set of books and is but an elaboration of our previous chapter on that subject, with this difference, that, instead of one general Profit and Loss Account, we may have as many as the requirements of the particular business dictate.

One of the most interesting features of Revenue Accounts is the handling of the inventories. There are two general methods. The first is to close out the Inventory Account at the beginning of the year, together with the totals of the various material accounts, by charging them to Manufacturing and crediting Manufacturing with the inventory at the close of the period. The second method presupposes that the inventory at the beginning of the year has been closed into the material accounts themselves, and thus at the time of closing we need only consider the final inventory. This is placed on the books by a debit to Inventory and a credit to the various material accounts and the balance of these accounts now represents the amount consumed during the period, and is closed into manufacturing.

Problems 39 to 42, on Revenue Accounts, have been taken from the questions of the various State Examinations for applicants for the degree of Certified Public Accountant.

The problems have not been quoted exact, verbal changes having been made in the presentation of the problems.

PROBLEM 39

The Trial Balance of the Vincent Manufacturing Co., as of Dec. 31, 1906, is given below. Inventory, Dec. 31, 1906, $90,000.00. Prepare Manufacturing, Trading, and Profit and Loss Accounts, and Balance Sheet.

Trial Balance

	Discounts, trade	4030	00		
	Entertainment of Customers	2000	00		
	Machinery Inventory, Dec. 31, 1906	40000	00		
	Tools Inventory, Dec. 31, 1906	8500	00		
	Patents Inventory, Dec. 31, 1906	21000	00		
	Patterns Inventory, Dec. 31, 1906	12400	00		
	Purchases	410000	00		
	Notes Receivable	3050	00		
	Accounts Receivable	250000	00		
	Insurance:				
	Machinery, Tools and Patterns	500	00		
	Merchandise	650	00		
	Employees' Liability Premiums	4000	00		
	Taxes, Personal Property	1000	00		
	Interest, General	4470	00		
	Cash	45000	00		
	Labor, productive	300000	00		
	Labor, unproductive	35000	00		
	Power	21000	00		
	Repairs, Machinery	1310	00		
	Factory Expense	3010	00		
	Office Payroll	18000	00		
	Inventory, Jan. 1, 1906	75000	00		
	Merchandise Sales			1048500	00
	Allowances	10900	00		
	Office Furniture and Fixtures	5700	00		
	Salaries, Officers	15000	00		
	Postage	2000	00		
	Telegraph and Telephone	1800	00		
	Collection and Exchange	700	00		
	Stationery and Printing	3050	00		
	Freight in	23000	00		
	Freight out	10000	00		
	Cartage and Express in	3750	00		
	Bonding of Employees (Office)	250	00		
	Traveling Expenses (Salesmen)	17500	00		
	Salesmen's Commission and Salaries	40000	00		
	Notes Payable			99050	00
	Accounts Payable			43000	00
	Surplus			43520	00
	Capital Stock			200000	00
	Director's Fees	1500	00		
	Cartage out	4300	00		
	Discounts, trade			6300	00
	Return Sales Account	41000	00		
		1440370	00	1440370	00

PROBLEM 40

This Trial Balance is taken from the Ledger of Johnson & Williams, as of Dec. 31, 1910.

Trial Balance

	Advertising	735	60		
	Cartage	250	00		
	Wages	3761	25		
	Stationery and Printing	176	00		
	Cash	1463	00		
	Tools	225	00		
	Furniture and Fixtures	390	00		
	Salesmen's Sal. and Exp.	3271	68		
	Clerks' Salaries	1684	00		
	Raw Materials Purchased	7500	00		
	Discount on Purchases			49	67
	Accounts Receivable	2760	00		
	Accounts Payable			1579	00
	Sales, Finished Goods			19326	42
	Machinery	9430	00		
	Rents Paid	592	00		
	Discounts on Sales	98	33		
	Power and Light	675	00		
	Bank Discounts	30	00		
	Johnson			5550	00
	Williams			6536	77
		33041	86	33041	86

Write off 15 % on Accounts Receivable for Reserve for Bad Debts. Depreciation on Machinery 7 %, on Furniture and Fixtures 20 %, on Tools 12 %. Rents paid, 25 % Office, 75 % Factory. Cartage $115.00 on outgoing goods, Cartage $135.00 on incoming goods. Inventory, Finished Goods $1461.32, Inventory, Raw Material $729.55.

From the above data prepare Manufacturing, Trading, and Profit and Loss Accounts, and final Balance Sheet, apportioning the Profit and Loss between the partners in the proportion of 50 % to Johnson and 50 % to Williams.

PROBLEM 41

From the following Trial Balance of the Excelsior Ribbon Company prepare closing Journal entries as of June 30, 1911, keeping in mind the fact that the company uses Manufacturing, Trading, and

Profit and Loss Accounts. Also prepare a final Balance Sheet as of that date.

Trial Balance

Capital Stock				
Preferred, 250 shares at $100.00			25000	00
Common, 300 shares at $100.00			30000	00
Machinery	24500	00		
Inventory, Dec. 31, 1910	78620	15		
Accounts Receivable	63428	30		
Materials Purchased				
Silk (raw, spun, and thrown)	124326	80		
Ribbon Paper, boxes, labels, etc.	3728	05		
Labor				
Weaving	29384	07		
Throwing	10976	25		
Dyeing	8563	43		
Warping, winding, etc.	15721	18		
Fixing and preparing looms	1270	60		
Sales of ribbon, less returns			265123	74
Sales, Miscellaneous			2507	26
Discounts on Purchases			120	56
Profit and Loss — Surplus — Dec. 31, 1910			23528	74
General Expenses				
Salaries, officers and clerk	5238	75		
Engineers, etc,	2068	17		
Rent of Mill	2500	00		
Commissions	17856	50		
Fuel, Lighting, etc.	2370	60		
Other expenses (including Ins., $285.00)	7650	39		
Notes Payable			57235	95
Interest on Notes Payable	1586	36		
Accounts Payable			6875	95
Cash in Bank	9876	25		
Cash in Safe	726	35		
	410392	20	410392	20

In closing, provide for the following:

Dividends declared at the rate of 3½% on preferred stock.
Dividends declared at the rate of 3% on common stock.
Depreciation on Machinery, 15%.

Prepaid Insurance	$48.25.
Labor accrued but not paid	1850.00 (estimated).
Taxes accrued but not due	250.00 (estimated).
Inventory, June 30, 1911	96385.50.

PROBLEM 42

The following is the Trial Balance of the Arlington Manufacturing Co., at the close of business Dec. 31, 1904, the end of the second fiscal year of the company's operations:

Trial Balance

Cash	25324	00		
Land	100000	00		
Buildings	200000	00		
Machinery	300000	00		
Tools and Implements	40430	00		
Horses, Wagons, and Harness	30000	00		
Office Furniture	5201	00		
Notes Receivable	25812	00		
Accounts Receivable	163374	00		
Investments	20000	00		
Salesmen's Accounts (Advances in Salaries)	1960	00		
Organization expense, $15000.00 less 2%	14700	00		
Good Will	200000	00		
Notes Payable			42000	00
Accounts Payable			98511	00
Special Accounts — Officers and Clerks			15363	00
Reserve for Bad Debts, less accounts written off			112	00
Reserve for Depreciation on Buildings 2½%			5000	00
Reserve for Depreciation on Machinery 6%			18000	00
Reserve for Depreciation on Horses, Wagons, etc., 10%			3000	00
Capital Stock, 10000 shares at $100.00			1000000	00
Sales, less returns and allowances			1240600	00
Rent of part of business premises			500	00
Inventory, Dec. 31, 1903	104621	00		
Purchases, including cartage	395662	00		
Labor — factory payrolls	600400	00		
Salaries of officers, clerical force	75120	00		
Salaries of salesmen	60440	00		
Advertising	50300	00		
Taxes	4020	00		
Insurance	2600	00		
Interest and Discount	6500	00		
Expenses, office and legal	29750	00		
Maintenance, Repairs, Buildings, and Machinery	26942	00		
Profit and Loss 1903, Surplus			60070	00
	2483156	00	2483156	00

NOTE. — Inventory, Dec. 31, 1904	$270560.00
Factory Payrolls accrued, but not paid	5750.00
Unexpired Insurance	912.00
Reserve for Bad Debts, 3 % of Accounts Receivable.	

From the foregoing Trial Balance and notations make the Journal entries necessary to close the books, keeping in mind that the company uses Manufacturing, Trading, Administration, and Profit and Loss Accounts. Write off 2 % of original organization expense. In arriving at the net proceeds for the current year, make the same reserves for depreciation as were made at the end of the first or preceding year. Also prepare a Balance Sheet, as of Dec. 31, 1904. Stable equipment is employed for delivery of goods sold.

PRINCIPAL PROBLEM I

General Produce Business of A. J. Dexter

Note. — This problem will include the various principles set out in Chapters IV to XXIII, inclusive. It is independent of the Supplementary Exercises. The student will use the Journal and the Ledger until further directed.

Nov. 1, 1913. — A. J. Dexter this day commenced the General Produce Business, investing cash, $20000.00.

Rented property # 41 Exchange Place from Albert Jones, paying one month's rent in advance, $75.00. (Rent Account.)

Engaged a bookkeeper at $15.00 a week, and two sales clerks at $12.00 a week, respectively. (No entry.)

Opened an account in the Produce National Bank, depositing the balance of cash. (No entry.)

Nov. 2, 1913. — Purchased from A. C. Drake, on account:

300 bu. Potatoes	@ $	.45
200 bu. Onions		.52
200 bskt. Cabbage		.23

Purchased from Hansell & Co., on account:

300 bx. Oranges	@ $	3.10
200 bx. Lemons		2.05
100 bbl. Apples		3.60

Nov. 3, 1913. — Purchased from A. W. Martin, for cash:

150 bbl. Apples	@ $	3.55

Sold to B. S. Perkins, on account:

25 bbl. Apples	@ $	4.00
30 bu. Potatoes		.55
10 bskt. Cabbage		.30

Sold to T. N. Merell, for cash:

25 bu. Onions	@ $	.60

Purchased of the Star Box Co., for cash:

500 Baskets	@ $	.03

Note. — Baskets are necessary to the sale of goods; charge Merchandise Account for same.

Nov. 4, 1913. — Purchased from the Phœnix Sack Co., for cash:

300 Potato Sacks	@ $	.04

(Charge similar to above.)

Sold T. N. Hawkins, on account:

40 bx. Lemons	@ $	2.50
60 bx. Oranges		3.50

Sold L. Adler, on account:
10 bx. Lemons @ $2.55
15 bx. Oranges 3.60

Nov. 5, 1913.—Paid $18.00 for sign in front of store. (Expense Account.)
Paid bill of Novelty Stationery Co., just received, for Office Books, $60.00. (Expense Account.)
Received check for $100.00 from B. S. Perkins, on account.

Nov. 6, 1913.—Sent A. C. Drake check for $150.00 to apply on account.
Sent Hansell & Co. check for $500.00 to apply on account.
Paid salaries of bookkeeper and clerks for the week, $39.00.
A. J. Dexter drew his weekly salary of $20.00. (Salary Account.)

Nov. 8, 1913.—Purchased from A. C. Drake, on account:
200 bu. Potatoes @ $ .48
150 bu. Onions .55
Purchased from Hansell & Co., on account:
100 bx. Oranges @ $3.00
150 bx. Lemons 2.20

Nov. 9, 1913.—Received bill of $40.00 from Produce Cartage Co., for hauling merchandise. Enter the bill but, do not pay it.

Nov. 10, 1913.—Sold to B. S. Perkins, on account:
50 bbl. Apples @ $3.90
30 bu. Potatoes .60

Nov. 11, 1913.—Sold to L. Adler, on account:
20 bx. Oranges @ $3.75

Nov. 12, 1913.—Sold to P. H. Brooks, for cash:
190 bskt. Cabbage @ $ .28

Nov. 13, 1913.—Sold Joseph Denny, on account:
125 bu. Onions @ $ .65
200 bu. Potatoes .55
Paid salaries of bookkeeper and clerks, $39.00. A. J. Dexter drew his salary of $20.00.

Nov. 15, 1913.—Purchased of D. Howard, on account:
100 Baskets Cabbage @ $ .25

Nov. 16, 1913.—Purchased of the Ajax Coal Co., for cash:
10 tons Coal @ $6.00
(Expense Account.)

Nov. 17, 1913.—Sold to T. P. Hunter, on account:
150 bx. Oranges @ $4.00

Nov. 18, 1913.—Sold to A. S. Jackson, on account:
100 bx. Lemons @ $2.50
Received drayage bill from Produce Cartage Co., for $25.00, for hauling merchandise from 9th to 18th inst.

Nov. 19, 1913.—Received from Joseph Denny, check for $100.00, to apply on account.

Settled account with D. Howard by mailing check for $25.00.

Nov. 20, 1913.—Settled account with the Produce Cartage Co. by mailing check for $65.00.

Paid weekly salaries.

Nov. 22, 1913.—Sold to Dawson & Maxwell, on account:

150 bu. Onions @ $ .65

Nov. 23, 1913.—Sold to J. H. Hammond, on account:

125 bbl. Apples @ $4.20

Nov. 24, 1913.—Sold to S. Beitler, on account:

100 bx. Lemons @ $2.50

Paid for bill heads and sundry office supplies, $15.00, from Cash Drawer. (Expense Account.)

Nov. 25, 1913.—Received from L. Adler, check for $79.50, on account.

Nov. 26, 1913.—Sent check to Hansell & Co. for $300.00, on account.

Nov. 27, 1913.—Paid salaries of bookkeeper, clerks, and proprietor. Mailed A. C. Drake check for $135.00, in settlement of bill of the 2d instant.

Nov. 29, 1913.—T. N. Hawkins sent check for $310.00, settling his account.

Nov. 30, 1913.—Paid the following bills:

Telephone	$4.00
Gas	3.00
Electric Light	2.50

1. Post the above transactions to the Ledger, placing the accounts on the pages designated in the index, to be found at the end of the problem, on page 210. The student will index, on the first two pages of the Ledger, each new account as it is opened.

2. Present a Trial Balance of the Ledger, as of Nov. 30, 1913.

Dec. 1, 1913.—A. J. Dexter purchased store building and ground for $10000.00. The building is valued at $6500.00; the ground at $3500.00. Dexter paid cash for the above. (Open separate accounts for "Building" and "Land.")

Dec. 2, 1913.—Received from T. P. Hunter, his 30-day note dated to-day, for $600.00, in full settlement of his account.

Dec. 3, 1913.—Purchased for cash from the Excelsior Wagon Co., a horse and wagon, $400.00. (Horses and Wagons Account.) Paid one month's rent in advance from Dec. 1, for stable, $25.00. (Stable Expense Account.)

Dec. 4, 1913.—Purchased for cash from the Horse Bazaar, another horse and wagon, $400.00.

Purchased from the A. Cassel Feed Co., on account, feed, hay, etc., for the stable, $25.00. (Stable Expense Account.)

Paid weekly salaries as follows:

Bookkeeper	$15.00
Two clerks, each	12.00
A. J. Dexter	20.00
Two drivers,* each	10.00

Dec. 5, 1913. — Paid bill of $100.00, received from the A. H. Lewis Paint Co., for painting building. (Repairs Account.)

Purchased from A. C. Drake, on account:

400 bu. Potatoes	@ $ .50
200 bu. Onions	.55

Dec. 7, 1913. — Purchased from Hansell & Co., on account:

50 bx. Lemons	@ $2.50

Sold to B. S. Perkins, on account:

75 bx. Oranges	@ $4.60

Sold to T. P. Hunter, on account:

100 bx. Oranges	@ $4.55

Dec. 8, 1913. — Received from B. S. Perkins, $19.50 in cash, to apply on account:

Gave Hansell & Co. 30-day note, dated 6th, for $900.00, to apply on account.

Dec. 9, 1913. — Received from L. Alder, 30-day note dated Dec. 6, for $75.00, with interest at 6 %.

Received 30-day note from B. S. Perkins, dated Dec. 8, for $213.00.

Dec. 10, 1913. — Purchased from D. Howard, on account:

200 bskt. Cabbage	@ $ .25

Sold L. Alder, on account:

100 bskt. Cabbage	@ $ .30

Purchased from L. Simpson & Co., on account:

100 bbl. Apples	@ $3.80

Dec. 11, 1913. — Sold to Joseph Denny, on account:

200 bu. Potatoes	@ $ .65

Purchased from New York Produce Co., on account:

100 bu. Onions	@ $ .52

Paid weekly salaries, as on the 4th instant.

Dec. 13, 1913. — Received from Joseph Denny, check for $91.25, on account.

Dec. 14, 1914. — Received from A. S. Jackson his 30-day note, dated Dec. 13, for $250.00, with interest at 6 %, in full settlement of his account.

* (Charge to Stable expense.)

Dec. 15, 1913. — Sent blacksmith check for $ 15.00, for shoeing horses.

Discounted 30-day note received from T. P. Hunter on Dec. 2, at the Produce National Bank.

Dec. 16, 1913. — Gave A. C. Drake 60-day note, dated to-day, with interest at 6 %, for $ 178.50, to apply on account.

Sold to P. Woodruff, on account:

200 bu. Potatoes	@ $ .65
75 bu. Onions	.70

(This bill is subject to 2 % discount if paid within 5 days.)

Dec. 17, 1913. — Received from Dawson & Maxwell, check for $ 97.50, in settlement of their account.

Sold to Dawson & Maxwell, subject to 2 % discount within 5 days:

100 bx. Lemons	@ $ 3.00

Dec. 18, 1913. — Mailed check for $ 52.00 to New York Produce Co., in settlement of account.

Paid weekly salaries, as on 11th inst.

Dec. 20, 1913. — Received from P. Woodruff, check in payment of bill of 16th instant, less 2 % discount. (Charge the discount to Merchandise Discount Account.)

Purchased from New York Produce Co., on account:

150 bskt. Cabbage	@ $ .30

Dec. 21, 1913. — Received from Dawson & Maxwell, check in payment of their purchase of 17th instant, less 2 % discount.

Paid the carpenter for sundry repairs in building, $ 25.00.

Dec. 22, 1913. — Received from J. H. Hammond, his 30-day note, dated Dec. 21, with interest at 6 %, for $ 525.00, in settlement of his account.

Sold to S. Beitler, on account:

175 bskt. Cabbage	@ $ .30

Dec. 23, 1913. — Discounted B. S. Perkins' note, received on Dec. 9, at the Produce National Bank.

Gave L. Simpson & Co. 30-day note dated to-day for $ 380.00, in settlement of account.

Dec. 24, 1913. — Sold to T. N. Hawkins, on account:

100 bbl. Apples	@ $ 4.60
75 bx. Oranges	4.50

Purchased from A. C. Drake the following items, subject to 5 % discount if paid within 5 days:

300 bx. Oranges	@ $ 3.90
200 bx. Lemons	2.25
100 bbl. Apples	3.80

Paid weekly salaries as per pay roll of Dec. 18

Dec. 27, 1913. — Received check for $ 70.00 from S. Beitler, on account.

Dec. 28, 1913. — Sold to Andrews & Hemphill, on account:

100 bx. Oranges	@ $ 4.50

Dec. 29, 1913. — Paid A. C. Drake for purchase of Dec. 24, thereby taking advantage of discount.

Dec. 30, 1913. — Received from Andrews & Hemphill their check for $ 200.00 and their 30-day note, dated to-day, for $ 250.00, in payment of their bill of Dec. 28.

Discounted Andrews & Hemphill's note at the bank. Rate of discount, 6 %.

Dec. 31, 1913. — Paid in cash, the following bills:

Telephone	$ 4.50
Gas	2.75
Electricity	3.75

Paid weekly salaries, as per pay roll of Dec. 24.

Post the above transactions to the Ledger, opening any new accounts that may be necessary on the pages designated in the index on page 210.

Present a Trial Balance of the Ledger as of Dec. 31, 1913. This Trial Balance includes the two months' work.

The following is the inventory of Merchandise, taken at the last cost price:

240 bu. Potatoes	@ $ .50
275 bu. Onions	.52
150 bbl. Apples	3.80
105 bx. Oranges	3.90
250 bx. Lemons	2.25
175 bskt. Cabbage	.30

There is also on hand, and to be included as part of the inventory:

250 Bushel Baskets	@ $ .03
200 Potato Sacks	.04

Present a Six-Column Statement as of Dec. 31, 1913, grouping the personal accounts under the captions "Accounts Receivable" and "Accounts Payable." Make the Journal entries necessary to close the nominal accounts into the Profit and Loss Account, and transfer the balance of this account in turn to the Proprietor's Account.

Balance and rule all Financial Accounts.

Present a final, or Proof Trial Balance.

These Statements should be made on the Statement sheets to be found in the back of Blank Book # 1, and the Journal entries in the Journal directly following the last entry of December.

NOTE. — The student will use the Journal, Cash Book, Sales Book, Purchase Book, and Bill Book. Copy the balance of cash as shown in the Ledger into the Cash Book. Use the Bill Book as an auxiliary book, making entries for notes receivable and notes payable in the Journal. Before commencing the month, copy into the Bill Book all notes handled previously by the business, entering all information at hand. All notes payable are made payable at the Produce National Bank, and the notes receivable are made payable at A. J. Dexter's office.

Jan. 2, 1914. — A. J. Dexter purchased the stable, paying $ 1500.00 for the land and $ 2000.00 for the building, for which he immediately made payment by check to the City Realty Co.

Gave check for $ 630.00 to Hansell & Co., to apply on account.

Sent check for $ 50.00 to D. Howard, in settlement of account.

Jan. 3, 1914. — Sent check to the New York Produce Co., for $ 45.00, in settlement of account.

Sent check to A. S. Cassel Feed Co., for $ 25.00, in settlement of account.

Sent check for $ 100.00 to A. C. Drake, to apply on account.

Jan. 4, 1914. — Received check for $ 145.00 from B. S. Perkins, on account.

Received check for $ 197.50 from T. N. Hawkins, on account.

Paid $25.00 to wheelwright, for repairing broken wheel and axle. (Stable expense.)

Jan. 5, 1914. — Sold T. N. Hawkins, on account:

75 bbl. Apples	@ $ 4.90
50 bx. Oranges	4.50
20 bx. Lemons	2.50

Sold L. Adler, on account:

100 bskt. Cabbage	@ $ .32

The Produce National Bank advised A. J. Dexter that they have paid his 30-day note, dated Dec. 6, in favor of Hansell & Co. (Given them Dec. 8, 1913.)

Received check for the principal and interest on the note of L. Alder, received Dec. 9, 1913.

Jan. 6, 1914. — Sold to B. S. Perkins, terms 5/10/30:

50 bbl. Apples	@ $ 4.25
50 bx. Lemons	2.25
5 bx. Oranges	4.00

Sold to L. Harrison, for cash:

5 bx. Oranges	@ $ 4.10
10 bx. Lemons	2.35
2 bbl. Apples	4.50

Sold to Brown Grocery Co., for cash:

25 bskt. Cabbage	@ $	.30
40 bu. Potatoes		.65
15 bu. Onions		.60

Sold to J. Denny, on account:

60 bu. Onions	@ $	.58
50 bu. Potatoes		.65
10 bskt. Cabbage		.30
3 bbl. Apples		4.50

Paid weekly salaries, as follows:

Clerks, two, each at	$ 12.00
A. J. Dexter	20.00
Bookkeeper	15.00
Drivers, two, each at	10.00

Jan. 8, 1914.—Received check from L. Adler, for $ 30.00, to apply on account.

Received check from Joseph Denny, for $ 130.00, to apply on account.

Jan. 9, 1914.—Sold to T. P. Hunter, on account:

50 bu. Potatoes	@ $	.68
10 bu. Onions		.60
15 bskt. Cabbage		.28
10 bx. Oranges		4.00

Received from Joseph Denny his 30-day note, dated the 8th, bearing interest at 6 %, for $ 83.80.

Received from T. P. Hunter his check for $ 55.00 to apply on account, and his 6 %-30-day note, dated the 8th inst., for $ 400.00.

Jan. 10, 1914.—Sold to L. Harrison, for cash:

3 bx. Oranges	@ $	4.15
15 bx. Lemons		2.40
1 bbl. Apples		4.25

Sold to J. Carroll, for cash:

20 bu. Onions	@ $	.60

Jan. 11, 1914.—Purchased from the A. S. Cassel Feed Co., on account, Feed, Hay, etc., for stable, $ 35.00.

Paid the blacksmith for shoeing horse, $ 8.00.

Jan. 12, 1914.—By arrangement with A. J. Dexter, T. P. Hunter returned the 10 boxes of Oranges purchased on Jan. 9.

Received from A. S. Jackson, check for principal and interest of his note, received on the 14th ult.

Jan. 13, 1914.—Received from S. Beitler his check for $ 32.50 and his 30-day note bearing interest at 6 % and dated to-day, for $ 200.00, in settlement of his account.

Paid weekly salaries, as on the 6th inst.

Jan. 15, 1914.—Sold to Dawson & Maxwell, on account:

10 bskt. Cabbage	@ $ .22
40 bu. Potatoes	.65
15 bx. Lemons	2.25
30 bu. Onions	.60

Sold to J. H. Hammond, on account:

40 bu. Onions	@ $ .62
20 bx. Lemons	2.20
4 bbl. Apples	4.20
5 bskt. Cabbage	.20

NOTE.—Before continuing, student will rule up Cash Book and Sales Book, and after posting the several books, will prepare a Trial Balance.

Jan. 16, 1914.—B. S. Perkins paid his bill of the 6th inst., less discount.

Purchased from the New York Produce Co., on account:

50 bu. Potatoes	@ $ .52
40 bu. Onions	.55

Purchased from L. Simpson & Co., on account:

50 bbl. Apples	@ $3.80
40 bx. Oranges	3.75

Jan. 17, 1914.—Purchased at auction, for cash:

25 bx. Lemons	@ $2.00
50 bbl. Apples	3.70
10 bx. Oranges	3.70

Purchased from B. D. Walker for cash:

75 bskt. Cabbage	@ $ .20
40 bu. Potatoes	.50

Jan. 18, 1914.—Sent check for $210.00 to A. C. Drake to settle account.

Purchased from A. C. Drake, terms 5/10/60:

300 bu. Potatoes	@ $ .48
220 bu. Onions	.52
100 bskt. Cabbage	.18

Purchased from Hansell & Co., terms 5/10/60:

200 bx. Oranges	@ $3.00
150 bx. Lemons	2.00
100 bbl. Apples	3.50

Jan. 19, 1914.—Sold to Joseph Denny, terms 2/5/30:

120 bu. Onions	@ $ .60
250 bu. Potatoes	.58

Sold to Dawson & Maxwell, on account:

100 bu. Onions	@ $ .62
50 bbl. Apples	4.25

Jan. 20, 1914.—Purchased from the New York Produce Co., on account:

50 bskt. Cabbage	@ $ .20
75 bbl. Apples	3.75
100 bu. Potatoes	.55

Purchased of L. Simpson & Co., on account:

80 bbl. Apples	@ $3.50
40 bx. Oranges	3.60

Purchased of B. D. Walker, for cash:

50 bskt. Cabbage	@ $ .20

Received from J. H. Hammond, his check for the principal and interest of his note, received on Dec. 22. Paid salaries as per the 13th inst.

Jan. 22, 1914.—The Produce National Bank advised A. J. Dexter of having paid his 30-day note, given to L. Simpson & Co., on the 23d ult.

Sold B. S. Perkins, on account:

75 bbl. Apples	@ $4.20
60 bx. Lemons	2.30
80 bskt. Cabbage	.30

Jan. 23, 1914.—Drew on B. S. Perkins at sight for $200.00. Perkins accepted.

Accepted to-day a 30-day draft for $340.00, drawn by L. Simpson & Co., payable to A. P. Roberts.

Drew a 30-day draft for $300.00 on Dawson & Maxwell, in favor of the New York Produce Co. The draft was accepted.

Jan. 24, 1914.—Sold to Andrews & Hemphill, on account:

100 bbl. Apples	@ $4.10
80 bx. Oranges	4.20

(Charge to Andrews & Hemphill.)

Received in payment for this bill a Bank Draft drawn in favor of Andrews & Hemphill, and indorsed by them to A. J. Dexter. (Credit to Andrews & Hemphill.)

Purchased from the New York Produce Co., on account:

100 bu. Potatoes	@ $ .50
80 bu. Onions	.53
100 bbl. Apples	4.00

Accepted 10-day sight draft drawn by the New York Produce Co., payable to their order, $94.25.

Received from Joseph Denny, his check in settlement of his purchase of Jan. 19, less the discount.

Jan. 25, 1914.—Received telegram from J. W. Boyce, of Allentown, Pa., ordering 400 bu. potatoes, @ $.60.

Shipped same on order bill of lading with sight draft attached,

which was deposited at the Produce National Bank for collection. (Bank will credit A. J. Dexter on collection.)

Sold to Harrisburg Produce Co., of Harrisburg, on account:

150 bbl. Apples	@ $4.20

Shipped above on straight bill of lading.

Drew at 30 days sight on the Harrisburg Produce Co., for $200.00, payable to A. J. Dexter. (No entry.)

Jan. 26, 1914.—Received the above acceptance, dated to-day, from the Harrisburg Produce Co.

Shipped to J. W. Boyce on order bill of lading with sight draft attached:

75 bbl. Apples	@ $4.20
80 bu. Onions	.62

(Charge to J W. Boyce.)

Deposited bill of lading and received credit immediately for the amount of the draft less 45¢ (collection fee). (Collection and Exchange Account.)

Sold to T. P. Hunter, on account:

60 bu. Onions	@ $ .63
70 bx. Oranges	4.10

Jan. 27, 1914.—Received notification from the bank of the collection of the sight draft drawn on J. W. Boyce, of Allentown, Pa., on the 25th inst. Collection fee, 30¢.

Sent check to A. C. Drake in settlement of bill of Jan. 18, less the discount.

Sent check to Hansell & Co., in settlement of bill of Jan. 18, less discount.

Paid salaries as per pay roll of Jan. 20.

Jan. 29, 1914.—Sold to A. S. Jackson, on account:

105 bskt. Cabbage	@ $ .30
72 bx. Oranges	4.25
35 bx. Lemons	2.10

A. S. Jackson accepted a 30-day draft drawn on him to order of A. J. Dexter, for $300.00.

Received check from Dawson & Maxwell for $24.45 to apply on account.

Jan. 30, 1914.—Discounted A. S. Jackson's acceptance of Jan. 29 at the Produce National Bank.

Purchased from A. C. Drake, on account:

200 bu. Potatoes	@ $ .50
200 bu. Onions	.54

Jan. 31, 1914.—Accepted a 30-day draft for $310.00 dated to-day and drawn by L. Simpson & Co.

Drew 30-day draft for $200.00 on T. N. Hawkins, payable to A. C. Drake. Hawkins accepted the draft.

Purchased from the A. S. Cassel Feed Co., on account: Hay Straw, Feed, etc., $30.00.

Paid the following bills by checks:

Telephone	$5.00
Gas	3.00
Electricity	4.00

1. Total and rule up the Cash Book, Sales Book, and Purchase Book.

2. Post and take a Trial Balance as of Jan. 31, 1914.

3. Prepare a Six-Column Statement. (Supplementary data given below.)

4. Make the necessary entries to close the Nominal Accounts into Profit and Loss, and this account in turn into the Proprietor's Account.

5. Balance and rule all Financial Accounts.

6. Take off a Proof Trial Balance.

The following is the inventory of merchandise on hand, on Jan. 31, 1914.

200 bu. Potatoes	@ $ .50
240 bu. Onions	.54
20 bbl. Apples	4.00
105 bx. Oranges	3.00
240 bx. Lemons	2.00
100 bskt. Cabbage	.20

There remain in the stable hay, straw, feed, etc., to the value of $30.00.

NOTE. — The student will continue to use the Journal, Cash Book, Sales Book, Purchase Book, and the Bill Book. The Bill Book, however, is to be used only as an auxiliary book.

Feb. 1, 1914. — A. J. Dexter to-day admitted W. H. Warner as an equal partner in the business. Warner invested an amount equal to the present worth of A. J. Dexter on Jan. 31, 1914.

Profits and losses are to be shared equally, and each partner is allowed a salary of $25.00 a week. The partnership is to be known as A. J. Dexter & Co. Dexter agreed to accept the following items as part of the investment of W. H. Warner:

2 cars of Potatoes, 900 bu	@ $ .50
1 car of Onions, 480 bu.	.54

200 bbl. Apples	4.00
150 bx. Oranges	3.00
350 bx. Lemons	2.00
100 cr. Celery	2.50
4 Horses and 2 Wagons } valued at	1000.00

Claims against

R. H. Fow & Co.	2500.00
Davis & Brown	2000.00
A. P. Hill	1200.00
J. W. Henry	1150.00

Warner gave his check for the balance of the investment.

Received check from B. S. Perkins, for $177.00, to apply on account.

Received check for $242.50 from T. N. Hawkins to apply on account.

Received check from L. Adler, in full of account.

Mailed check to A. C. Drake for balance due him.

Feb. 2, 1914.—Drew a 30-day draft for $400.00 on T. N. Hawkins in favor of the New York Produce Co. T. N. Hawkins accepted the draft.

Drew a 30-day draft for $300.00 on B. S. Perkins in favor of firm. B. S. Perkins accepted the draft.

Purchased from the New York Produce Co., terms 2/5/30.

100 bbl. Apples	@ $3.95
200 bu. Potatoes	.50

Purchased from B. D. Walker, for cash:

100 bskt. Cabbage	@ $ .22

Purchased at auction, for cash:

50 bx. Lemons	@ $2.10
30 bx. Oranges	3.50
50 cr. Celery	2.50

Feb. 3, 1914.—Paid premium for one year on fire insurance policies ($8500.00, dated Feb. 1, 1914), $48.00. (Insurance.)

Paid $600.00 cash to cover cost of advertising for one year in the Produce Trade Journal, the contract having been made of the 1st instant. (Advertising Account.)

Paid weekly salaries as follows:

4 clerks, each at	$12.00
1 bookkeeper	15.00
4 drivers, each at	10.00
A. J. Dexter	25.00
W. H. Warner	25.00

Advice was received from the Produce National Bank that they have paid the 10-day sight draft for $94.25 drawn by the New York Produce Co., and accepted by A. J. Dexter on Jan. 24.

Purchased for cash: new safe, typewriter, office desks, filing cabinets, etc., at a cost of $1000.00. (Furniture and Fixtures Account.)

Sold to L. Haines, for cash:

10 bx. Oranges	@ $4.25
8 bx. Lemons	2.40
3 bbl. Apples	4.50

Sold to the Brown Grocery Co., for cash:

25 bskt. Cabbage	@ $. 30
40 bu. Potatoes	.62
10 cr. Celery	3.00

Feb. 5, 1914. — Sold to B. S. Perkins, on account:

40 cr. Celery	@ $2.80
25 bbl. Apples	4.30

Purchased at auction, for cash:

50 cr. Celery	@ $2.20
50 bx. Oranges	3.80

Purchased from L. Simpson & Co., on account:

50 bx. Lemons	@ $2.00
40 bx. Oranges	3.80

A. J. Dexter sent a check for $400.00 to the Life Insurance Co., to cover the yearly premium on his personal policy. (Open Personal Account.)

A. J. Dexter sent 5 boxes of oranges to a church festival, ordering them charged to his account at cost, $3.80 per box. (Enter in Sales Book and charge to his Personal Account.)

Feb. 6, 1914. — Received from T. N. Hawkins, check for $200.00, to apply on account.

Drew a 10-day sight draft for $430.00 on the Harrisburg Produce Co., which they accepted.

Mailed check to the A. S. Cassel Feed Co., in settlement of account.

Sold to Joseph Denny, terms 2/10/30:

70 bu. Onions	@ $.58
80 bu. Potatoes	.60
80 bskt. Cabbage	.30

Sold to T. P. Hunter, terms 2/10/30:

100 cr. Celery	@ $2.60
100 bx. Oranges	4.20

Shipped to J. W. Boyce, at Allentown, Pa., one carload of potatoes (450 bu.), to be sold on account. (Make only memorandum record.)

Shipped to the Harrisburg Produce Co., at Harrisburg, Pa., to be sold on account:

30 cr. Celery
100 bx. Oranges
100 bx. Lemons

Feb. 7, 1914. — W. H. Warner purchased for his private use at cost price:

5 bu. Potatoes	@ $	.50
1 bu. Onions		.54
1 bbl. Apples		4.00

(Charge to his Personal Account.)

Sold to A. S. Jackson, on account:

40 bx. Oranges	@ $	4.25
20 bx. Lemons		2.20
40 bskt. Cabbage		.30

Mailed check to New York Produce Co., for bill of Feb. 2, less the discount.

Received check from Joseph Denny for principal and interest of his note, received Jan. 9.

Paid the blacksmith for shoeing horses, $ 12.00.

Purchased from B. D. Walker, for cash:

100 bskt. Cabbage	@ $	.22
100 bu. Potatoes		.50

Received check from T. P. Hunter for the principal and interest of his note, received Jan. 9.

Feb. 8, 1914. — Received an account sales from J. W. Boyce of Allentown, Pa., showing net proceeds of $ 270.00, which amount Boyce is to remit within a few days. (Enter in the Sales Book as a charge to J. W. Boyce, and in explanation, "net proceeds as per account sales of 450 bu. Potatoes shipped on Feb. 6.")

Sold to L. Haines, on account:

20 bx. Oranges	@ $	4.30
10 bx. Lemons		2.45
10 cr. Celery		2.90

Sold to B. D. Harvey, on account:

20 bx. Lemons	@ $	2.45
10 cr. Celery		2.90

Sold to B. S. Perkins, on account:

100 bu. Potatoes	@ $	.58
100 bbl. Apples		4.30
10 cr. Celery		2.85

Feb. 9, 1914. — Sold to J. Denny, terms 2/10/30:

120 bu. Onions	@ $	.57
100 bu. Potatoes		.58

Sold to A. S. Jackson, terms 2/5/30:

50 bu. Potatoes	@ $	.60
25 bbl. Apples		4.35
100 bx. Lemons		2.25
10 bx. Oranges		4.25

Received check for $ 500.00 from R. H. Fow & Co., to apply on account.

Drew a 10-day sight draft on Davis & Brown in favor of the firm for $ 1000.00. The draft was accepted.

Feb. 10, 1914. — An account sales was received from the Harrisburg Produce Co., of Harrisburg, Pa., showing that after deducting their commission and other charges from the sales of the shipment, there were net proceeds due A. J. Dexter & Co. of $ 750.00, which amount is to be remitted within a few days. (Enter in Sales Book, showing the net amount of the sale, and showing the items sold. It is not necessary to list the exact sale price of each article; merely refer to the account sales.)

Received check for $ 270.00 from J. W. Boyce, of Allentown, Pa., being the balance shown to be due in the account sales received on Feb. 8.

Mailed check for $ 30.00 to the Camden Wagon Co. for repairing and painting one of the wagons.

Purchased from B. D. Walker, for cash:

200 bskt. Cabbage	@ $	.20

Purchased from A. C. Drake, terms 2/5/30:

400 bu. Potatoes	@ $	.50
300 bu. Onions		.52

Purchased from Hansell & Co., terms 2/10/30:

200 bx. Oranges	@ $	3.00
200 bx. Lemons		2.00

Paid weekly salaries, as follows:

4 clerks, each at	$ 12.00
1 bookkeeper	15.00
4 drivers, each at	10.00

(As A. J. Dexter and W. H. Warner did not draw their salaries, they are to be credited, each for $ 25.00, in their respective Personal Accounts.

Feb. 12, 1914. — Purchased from the Phœnix Sack Co., for cash:

500 Potato Sacks	@ $	.04

(Enter in Purchase Book.)

Purchased from the Star Box Co., for cash:
1000 Baskets @ $ .03
Purchased for cash:
Rubber bands, pencils, ink, and sundry other office supplies, for $8.00. (Only Cash Book entry.)
Paid in cash for cleaning office and windows, $5.00.
Sold to T. M. Merrill, on account:
20 bu. Potatoes @ $ .60
10 bu. Onions .62
20 bskt. Cabbage .30
Sold to T. N. Hawkins, terms 2/5/30:
200 bu. Onions @ $ .60
200 bu. Potatoes .58
Purchased at auction, for cash:
100 bx. Lemons @ $2.00
100 bx. Oranges 3.00
Received check from S. Beitler in full payment for the principal and interest of his note, received on Jan. 13.

Feb. 13, 1914.—Received check from the Harrisburg Produce Co., for $500.00, to apply on account.
Received check from J. W. Henry, for $150.00, to apply on account.
Received check from A. P. Hill, for $200.00, to apply on account.
Sold to L. Adler, on account:
30 bx. Oranges @ $3.70
Sold Dawson & Maxwell, terms 2/5/30:
100 bu. Potatoes @ $ .60
50 bu. Onions .62
Sold to T. M. Merrill, on account:
40 bskt. Cabbage @ $ .30
10 cr. Celery 2.90

Feb. 14, 1914.—Received check for $20.00 from T. M. Merrill, to apply on account.
Purchased from D. Howard, on account:
100 bskt. Cabbage @ $ .22
20 cr. Celery 2.20
Purchased from L. Simpson & Co., terms 2/5/30:
200 bbl. Apples @ $3.50
Purchased from A. C. Drake, terms 2/5/30:
400 bu. Potatoes @ $ .50
100 bu. Onions .52
Purchased from the Ajax Coal Co., for cash:
6 tons Coal @ $6.00

Advice was received from the Produce National Bank that they paid the 60-day interest-bearing note given to A. C. Drake on Dec. 16.

Received check from A. S. Jackson in payment of the purchase of Feb. 9, less the discount.

NOTE. — The student will now rule up the Cash, Sales, and Purchase Books, and after posting the several books, prepare a Trial Balance before continuing.

Whenever the amount of any transaction ends with one half of a cent, or a fraction greater than one half of a cent, an extra cent is added. Therefore, $27\frac{1}{2}$ ¢ becomes 28 ¢; $30\frac{2}{3}$ ¢ becomes 31 ¢, etc.

Feb. 15, 1914. — Received check from J. H. Hammond, in full of his account.

Received check from B. S. Perkins for $136.00, to apply on account.

Mailed check to Hansell & Co. for $125.00, to apply on account.

Mailed check to A. C. Drake, in settlement of bill for purchase of Feb. 10, less the discount.

Purchased from the New York Produce Co., 2/5/30:

200 bbl. Apples	@ $3.90
100 bu. Potatoes	.50

Purchased from L. Simpson & Co., 5/10/30:

100 bx. Lemons	@ $2.00
100 bx. Oranges	3.60

Feb. 16, 1914. — W. H. Warner had the bookkeeper give him a check for the balance of his Personal Account. A. J. Dexter gave the business a check for an amount sufficient to close his Personal Account.

As the firm has been carrying too large a bank balance, a purchase was made for cash, of eight (8) $1000.00 bonds of the New York Light, Power, and Heat Co., with interest from Aug. 28, 1913, at 5 %. The interest periods on these bonds are Aug. and Feb. 28, and since the firm purchased bonds on which 168 days interest had accrued, they had to pay for the interest also. (Charge bonds to the account "Stocks and Bonds.")

Received check for $430.00 from the Harrisburg Produce Co., in payment of their 10-day acceptance of the 6th.

Received check from J. Denny, in payment of his purchase of Feb. 6, less the discount.

Received check from T. P. Hunter, in payment of his purchase of Feb. 6, less the discount.

Feb. 17, 1914. — Received from H. L. Miller, of Perth, N. Y., a consignment of

500 bu. of potatoes to be sold for his account. (Make only memorandum record.)

Gave check to Pennsylvania R. R. Co., for $50.00, in payment of freight on above consignment.

Received check for $30.00 from B. D. Harvey, to apply on account.

Received check from T. N. Hawkins, in settlement of his purchase of Feb. 12, less the discount.

Sold to J. H. Hammond, 2/5/30:

95 bskt. Cabbage	@ $ .30
155 bu. Potatoes	.60

Paid weekly salaries as follows:

4 clerks, each at	$12.00
1 bookkeeper	15.00
4 drivers, each at	10.00
A. J. Dexter	25.00
W. H. Warner	25.00

Feb. 19, 1914.—Sold H. L. Miller's consignment #1, of 500 bu. of potatoes to B. S. Perkins, on account, at $.60 per bushel. This sale was recorded in the Journal, as it was not a sale of the firm's Merchandise. To record sales of consignments in the Sales Book, a special column Sales Book would have to be created.

Entry was made in the Journal to record the firm's commission of 10% against H. L. Miller's consignment #1. An account sales was made out and forwarded to H. L. Miller, showing him the sales, expenses, and commission on his consignment of the 17th, and also showing him the net proceeds, which amount, it was stated, was to follow in several days. Make the entry necessary to show the transfer of the balance of the consignment Account to the account with H. L. Miller. As the account sales acknowledged a definite amount of indebtedness to H. L. Miller, it is necessary to show H. L. Miller on the books as a creditor.

Received check from Davis & Brown in payment of their acceptance of Feb. 9.

Mailed check to L. Simpson & Co., in settlement of purchase of Feb. 14, less the discount.

Received check from J. Denny, in settlement of his purchase of Feb. 9, less the discount.

Mailed check to A. C. Drake, in settlement of purchase of Feb. 14, less the discount.

Feb. 20, 1914.—Received a second consignment from H. L. Miller of Perth, N. Y., being 420 bu. of potatoes, to be sold for his account.

Paid $ 47.00 in cash, being freight on above consignment.

Received from R. Barker & Co., of New York City, a consignment of 500 bbl. of apples, to be sold for their account.

Received from H. L. Miller, of Perth, N. Y., a third consignment of 500 bu. of onions, to be sold for his account.

Mailed check for $ 150.00 to the Pennsylvania R. R. Co., to cover freight bill of $ 100.00 on R. Barker's consignment # 1, and $ 50.00 on H. L. Miller's consignment # 3.

Mailed check to Hansell & Co., in settlement of purchase of the 10th, less the discount.

Mailed check to New York Produce Co., in settlement of purchase of the 15th, less the discount.

Feb. 21, 1914. — Received check, for $ 48.00, from B. D. Harvey, in full of his account.

Received check from T. M. Merrill for $ 45.20, in full of his account.

Paid $ 10.00 in cash for recoopering some of the barrels in R. Barker & Co.'s consignment.

Paid $ 15.00 in cash for extra labor to sort out some of the bad apples in R. Barker & Co.'s consignment.

Received 30-day note, dated Feb. 20, from A. P. Hill, for $ 1000.00.

Feb. 22, 1914. — The bank returned T. M. Merrill's check for $ 45.20, deposited on Feb. 21, as T. M. Merrill's bank would not honor the check. The firm's check for this amount was made out and given to the bank, who then turned over the returned check of T. M. Merrill. A. J. Dexter went to Merrill's office to have the check cashed, but found the office closed, as Merrill had failed. It was ascertained that Merrill had no assets, so Dexter advised the bookkeeper to write Merrill's account off to the account "Bad Debts."

Sold to L. Haines, for cash:

40 bx. Oranges	@ $ 4.25
10 bx. Lemons	2.40
5 bbl. Apples	4.40

Sold to J. Denny, 2/5/30:

200 bu. Potatoes	@ $ .60
100 bu. Onions	.62
80 bx. Oranges	4.20

Advice was received from the Produce National Bank that they honored the firm's 30-day acceptance, dated Jan. 23.

Received check from J. H. Hammond in settlement of bill of Feb. 17, less the discount.

Feb. 23, 1914. — The bank returned B. D. Harvey's check for $48.00, deposited on Feb. 21. The amount of Mr. Harvey's account was not sufficient to meet the check. The bank was given the firm's check in exchange for B. D. Harvey's check.

Sold H. L. Miller's consignment #2, of 420 bu. of Potatoes, for cash, at $.62 per bushel. (Cash Book entry only.)

H. L. Miller's consignment #2 was charged with the commission, and a check for the net proceeds was mailed to H. L. Miller, along with account sales.

Received check from B. S. Perkins for $300.00, to apply on account.

Mailed check to H. L. Miller, of Perth, N. Y., for the net proceeds of his consignment #1, as shown in the account sales rendered him on Feb. 19.

Feb. 24, 1914. — Shipped to J. W. Boyce, of Allentown, Pa., 500 bu. of potatoes to be sold for the firm's account. (Only memorandum record.)

Shipped to the Harrisburg Produce Co., of Harrisburg, 300 bbl. apples, to be sold for the firm's account.

Prepaid the freight on the above two shipments by giving check to the Pennsylvania R. R. Co. for $160.00. (Charge to Merchandise Account.)

Purchased from the A. S. Cassel Feed Co., on account, Hay, Straw, etc., for the stable, $30.00.

Sent check to veterinarian for $25.00 for treatment of two sick horses.

Sold 300 bbl. of apples from R. Barker & Co.'s consignment to A. S. Jackson, on account, @ $4.40.

Sold H. L. Miller's consignment #3, 500 bu. of onions, to R. H. Fow & Co., on account, @ $.63.

Made the entry to charge the commission to H. L. Miller's consignment #3. An account sales was rendered H. L. Miller for his consignment #3, and it is stated that the net proceeds would follow in several days.

Mailed check to L. Simpson & Co., in settlement of bill of Feb. 15, less the discount.

Received check from Harrisburg Produce Co., in settlement of their acceptance of the 26th ultimo.

Paid weekly salaries as per pay roll of Feb. 17.

Feb. 26, 1914. — B. D. Harvey, whose check was returned by the bank, failed, and a settlement of his affairs procured for each creditor $33\frac{1}{3}$¢ on the dollar. Accordingly, a check was received to-day for $16.00, to be applied to B. D. Harvey's account.

Dexter advised the bookkeeper to close the balance into the account "Bad Debts."

Sold the remaining 200 bbl. of apples in R. Barker & Co.'s consignment for cash, @ $4.00 per bbl.

Received check from A. S. Jackson for $1320.00, to apply on account.

Charged the commission to R. Barker & Co.'s consignment, and mailed check for the net proceeds.

Mailed check to H. L. Miller for the net proceeds of his consignment #3, as acknowledged in account sales dated Feb. 24.

Feb. 27, 1914. — Received check from L. Haines, in full of account.

Received check from Dawson & Maxwell, in full of account.

Mailed check to D. Howard, in full of account.

Received check from L. Adler, in full of account.

Received check from J. Denny, in settlement of bill of Feb. 22, less the discount.

Mailed check to Hansell & Co., for $400.00, to apply on account.

Sold to Dawson & Maxwell, on account:

200 bskt. Cabbage	@ $ .30

Sold to A. P. Hill, on account:

300 bu. Potatoes	@ $ .60
369 bu. Onions	.62

Sold to T. N. Hawkins, 2/5/30:

300 bx. Oranges	@ $3.50
400 bx. Lemons	2.40

Feb. 28, 1914. — Mailed check to the Excelsior Elevator Co., for $500.00, for placing two freight elevators in the building. This expenditure has increased the value of the building.

Mailed check to A. P. Brown, for $75.00, for having repaired the iron awning in front of the store.

Received an account sales from J. W. Boyce, of Allentown, Pa., showing net proceeds of $290.00 due from the sale of the 500 bu. of potatoes shipped him on the 24th. The net proceeds is to follow in 30 days.

Received an account sales from the Harrisburg Produce Co., for the shipment of 300 bbl. of apples sent them on Feb. 24. The net proceeds, $1320.00, is to be remitted in 10 days.

Paid the following bills by check:

Telephone	$8.00
Gas	5.00
Electricity	7.50
Telegraph	5.00

Received check for $200.00 from the New York Light, Power, and Heat Co., being six months' interest at 5 %, due Feb. 28, 1914, on the eight (8) $1000.00 bonds of that company, standing in the name of A. J. Dexter & Co.

1. Total and rule the Cash, Sales, and Purchase Books.
2. Post and take a Trial Balance as of Feb. 28, 1914.
3. Make the necessary Journal entries to close all the nominal accounts into the Profit and Loss Account. Close the Profit and Loss Account into the Proprietors' Personal Accounts, and close these in turn into their respective Capital Accounts. The subsidiary data necessary to the proper closing of the books follows:

INVENTORY OF MERCHANDISE, TAKEN AT LAST COST PRICE

200 bu. Potatoes	@ $ .50
261 bbl. Apples	3.90
300 bu. Onions	.52
80 bx. Oranges	3.60
422 bx. Lemons	2.00
100 bskt. Cabbage	.22

One month of the advertising and insurance contracts has expired.

Depreciation for one month is to be provided for, by creating a Reserve for Depreciation on each of the following accounts:

Buildings (annual depreciation) 4 %
Horses and Wagons (annual depreciation) 10 %
Furniture and Fixtures (annual depreciation) 10 %

A "Reserve for Bad Debts" for one month on the total Accounts Receivable is to be created on the basis of 12 % per annum.

One half of the weekly salaries have accrued and should be considered in ascertaining Profit and Loss.

4. Balance and rule all the accounts on the Ledger.
5. Prepare a "Statement of Profit and Loss" following the pro forma outline given below; also prepare a "Balance Sheet," following the more approved form of listing the assets in the order of their importance, also deducting the amount of any reserve from the value of the particular assets so affected.

Pro Forma Outline

Statement of Profit and Loss

A. J. Dexter & Company — February 28, 1914

Sales		.....	..		
Less discounts allowed		...	..	.....	..
Inventory, Jan. 31, 1914		.....	..		
Purchases	....				
Less discounts received	.... ..	.....	..		
		.....	..		
Less Inventory, Feb. 28, 1914		.....	..	.....	..
Gross Profit on Merchandise				....	..
Less					
Stable Expense		...	..		
Expense		....	..		
Repairs		...	..		
Salaries		....	..		
Insurance		....	..		
Advertising		....	..		
Bad Debts		....	..		
Reserve for Depreciation:					
On Buildings		....	..		
On Horses and Wagons		..	..		
On Furniture and Fixtures		...	..		
Reserve for Bad Debts		..	..	.....	..
Net Profit on Merchandise				.....	..
Add					
Interest Received		..	..		
Commission Received		...	..	...	..
Net Profit of business				.....	..
Distribution of Profit					
A. J. Dexter		....	..		
W. H. Warner		....	..	.....	..

Ledger Index

The following table shows the amount of space to be allowed each account in the Ledger, for the A. J. Dexter problem:

Adler, L.	1/4 of page 19	Barker, R., & Co., Consignment #1	1/3 of page 28
Advertising	1/3 of " 12	Beitler, S.	1/3 of " 21
Andrews & Hemphill	1/4 of " 24	Boyce, J. W.	1/2 of " 22
Bad Debts	1/3 of " 13		

Buildings	1/3 of page 25	Merchandise	All of page 5
Cash	All of pages 3 & 4	Merchandise Discount	1/2 of " 10
Cassel, A. S., Feed Co.	1/3 of page 15	Merchandise Inventory.	
Collection & Exchange	1/3 of " 12	(See Inventory)	
Commission	1/3 of " 6	Merrill, T. M.	1/3 of " 25
Davis & Brown	1/4 of " 24	Miller, H. L.	1/4 of " 26
Dawson & Maxwell	1/3 of " 21	Miller, H. L., Con. #1	1/3 of " 27
Denny, J.	1/2 of " 20	Miller, H. L., Con. #2	1/3 of " 27
Dexter, A. J.	1/2 of " 1	Miller, H. L., Con. #3	1/3 of " 27
Dexter, A, J., Personal	1/2 of " 1	New York Produce Co.	1/2 of " 23
Discount	1/3 of " 11	Notes Payable	1/2 of " 16
Drake, A. C.	1/2 of " 17	Notes Receivable	1/2 of " 16
Expense	1/2 of " 10	Perkins, B. S.	1/2 of " 18
Fow, R. H., & Co.	1/4 of " 24	Produce Cartage Co.	1/4 of " 19
Furniture & Fixtures	1/3 of " 7	Profit and Loss	1/2 of " 14
Haines, L.	1/4 of " 26	Rent	1/3 of " 7
Hammond, J. H.	1/3 of " 21	Repairs	1/3 of " 12
Hansell & Co.	1/2 of " 17	Reserve for Bad Debts	1/3 of " 15
Harrisburg Produce Co.	1/2 of " 22	Reserve for Depreciation,	
Harvey, B. D.	1/3 of " 25	Bldgs.	1/3 of " 13
Hawkins, T. N.	1/2 of " 18	Reserve for Depreciation,	
Henry, J. W.	1/4 of " 26	Fur. & Fixtures	1/4 of " 14
Hill, A. P.	1/4 of " 26	Reserve for Depreciation,	
Horses & Wagons	1/3 of " 7	Horses & Wagons	1/4 of " 14
Howard, D.	1/4 of " 19	Salaries	All of page 9
Hunter, T. P.	1/2 of " 20	Simpson, L., & Co.	1/2 of " 23
Insurance	1/3 of " 13	Stable Expense	All of page 8
Interest	1/3 of " 11	Stocks & Bonds	1/2 of " 4
Inventory	1/3 of " 11	Warner, W. H.	1/2 of " 2
Jackson, A. S	1/4 of " 19	Warner, W. H., Personal	1/2 of " 2
Land	1/3 of " 6	Woodruff, P.	1/4 of " 24

PRINCIPAL PROBLEM II

H. C. Burns & Co.

Books to be Used

Purchase Book Sales Book Cash Book Petty Cash Book Journal	Books of Original Entry
Customers' Creditors' General	Ledgers

Accounts to be opened in the General Ledger

Wages	Zinc
Superintendence	Coal
Engineers and Firemen	Lime
Tin	Iron
Copper	Office Salaries
Sand	Office Supplies
Crucibles	Discount on Notes
Oil	Sales, Iron Castings
Coke	Sales, Sand Blast Castings
Freight	Sales, Brass Castings
Insurance	Sales, Phos. Bronze Castings
Real Estate	Discount on Sales
Buildings	Discount on Purchases
Repairs to Machinery	Machinery
Repairs to Boilers	Boilers
Repairs to Buildings	Tools
Stable Expense	Horses and Wagons
Phosphorus	Furniture and Fixtures
Stationery and Printing	Cash
H. C. Burns, Personal a/c	Petty Cash
Edwin Moore, Personal a/c	Notes Receivable
F. H. Hale, Personal a/c	Notes Payable
H. C. Burns, Capital a/c	Accounts Receivable
Edwin Moore, Capital a/c	Accounts Payable
F. H. Hale, Capital a/c	

The student will open additional accounts as may be required and will prepare the original entry books on blank sheets of paper, the rulings for the set being identical with the illustrations given in Chapter 24. The student will use the remaining portion of the ledger blank of the A. J. Dexter problem for his General Ledger, opening three accounts to the page. The Customers' and Creditors' Ledgers may be kept on cards or in a separate ledger book, but in either case care should be taken that they are kept apart, as each is a distinct Ledger and includes a special class of accounts.

July 1, 1913.—H. C. Burns & Co. this day start in the foundry business with a cash capital of $125000.00, divided as follows: H. C. Burns, $50000.00; Edwin Moore, $50000.00; and F. H. Hale, $25000.00. F. H. Hale, on account of his knowledge of the business, is to share equally with the others, thus making an equal division of losses and gains between the three partners.

July 2, 1913.—Purchased from the City Real Estate Co., a plot of ground valued at $60000.00 with a foundry thereon valued at $15000.00 for $75000.00. Paid for the above with check for $50000.00, and a note at 45 days for $25000.00. Interest on note 6 %.

July 3, 1913.—Purchased of the Penn Foundry Co. (the former lessee of the plant), on account, boiler appraised at $5000.00 and machinery appraised at $15,000.00 for $20,000.00. Also purchased crucibles for $1000.00 and miscellaneous tools for $500.00.

July 5, 1913.—Purchased of Stationery Supply Co., on account, office furniture for $1000.00. Purchased from Philadelphia Horse Exchange, horses for $500.00. Paid cash on account to Penn Foundry Co., $20,000.00.

July 6, 1913.—Drew for petty cash $100.00. Bought ledger paper, bill heads, and envelopes from Chestnut Stationery Co., to amount of $100.00, on %. Paid expressage, $.50, from petty cash.

July 8, 1913.—Paid Stationery Supply Co. bill of 5th inst., being allowed 2 % for cash. Purchased from United States Sand Co., 3 tons of sand at $1.50 per ton.

July 9, 1913.—Purchased of Camden Coke Co., 100 tons of coke at $2.50 per ton. Purchased of Pittsburg Copper Co., 10000 lb. of copper at $.13 per pound.

July 11, 1913.—Purchased of Texas Oil Co., 5000 gal. of fuel oil at 5¢ per gallon. Gave note at 30 days, bearing 5 % interest to Penn Foundry Co., for balance of account.

July 13, 1913.—Purchased of Allentown Iron Co., 160 pigs of iron at $15.00 per ton. (100 lb. to a pig. Ton = 2000 lb.)

July 15, 1913.—Pay roll for one half of month of July is as follows:

Foundry hands	$300.00	Foreman	$60.00
Office Salaries	100.00	Engineer	30.00

H. C. Burns drew $50.00 on account.

July 16, 1913.—Sold Peter Henderson 250 lb. iron castings at 3¢, and 300 lb. sand blast castings at 5¢.

Purchased of Delaware Zinc Co., 12000 lb. zinc at 6¢ per pound.

Purchased of Slatington Coal Co., 100 tons egg coal at $5.10 per ton.

July 18, 1913.—Purchased of Keystone Phosphorus Co., 300 lb. phosphorus at 25¢ per pound. Sold John Johnson 50 lb. brass castings from special patterns at 28¢ per pound. Paid in cash bill of Philadelphia Horse Exchange, being allowed 1 % for payment within 15 days.

July 19, 1913.—Received check from Peter Henderson in full payment for his account. Sold Samuel Jackson 100 lb. brass castings at 25¢, and 280 lb. iron castings at 3¢ per pound.

July 20, 1913.—Bought of Camden Wagon Co., delivery wagon for $200.00.

Bought of Kensington Harness Co., harness for $100.00.

July 22, 1913.—Purchased for cash from petty cash, stamps $10.00, rubber bands $1.00, pens $1.00, and pencils $.75.

July 23, 1913.—Paid factory insurance premium, $200.00. The policy is for one year and dates from July 1, 1913.

July 25, 1913.—Received check from John Johnson for his account in full.

Sold Peter Smith 1000 lb. iron castings at 3¢; 500 lb. sand blast castings at 5¢; and 200 lb. phos. bronze castings at 29½¢. Received in settlement his 30-day note, 5 %.

July 29, 1913.—Received bill from Eastern Livery & Sales Co., for feed delivered during July: 2 bags oats at $1.20 per bag; 200 lb. hay at $.90 per 100 lb.; 100 lb. bran at $1.15 per 100 lb.; 200 lb. cracked corn at $1.30 per 100 lb.; 200 lb. straw at $1.10 per 100 lb.

July 31, 1913.—Pay roll for last half of month is as follows:

Foundry hands	$500.00	Foreman	$80.00
Office Salaries	100.00	Engineer	30.00
Stableman (full month)			75.00

Partners drew on account the following:

H. C. Burns	$ 25.00
F. H. Hale	25.00
Edwin Moore	100.00

The student will now total the columns of the original books, post to the ledgers, and take off a Trial Balance from the General Ledger. The Petty Cash book in this month is to be posted by means of the "Imprest" system.

Aug. 1, 1913.—Sold Peter Henderson 500 lb. iron castings at 3¢, and 250 lb. phos. bronze castings at 29½¢.

One horse died; value $150.00. (No entry at this time.)

Aug. 2, 1913.—Bought of Philadelphia Horse Bazaar, one horse at $200.00.

Note of James Dickson, which H. C. Burns & Co. had indorsed, went to protest, and they were compelled to pay its full value $20000.00 together with protest fees of $5.00. As James Dickson has failed and has no assets, write off the claim against him to "Bad Debts."

Aug. 4, 1913.—Allentown Iron Co. offers 500 pigs of iron (100 lb. per pig) at $14.00 per ton, for spot cash. Offer accepted.

Aug. 6, 1913.—Paid bill of Allentown Iron Co. of 4th instant.

Aug. 9, 1913.—Sold James Jamison 1000 lb. iron castings at 3¢, and 500 lb. brass castings at 28¢.

Aug. 10, 1913.—Bought of Texas Oil Co., 5000 gal. of fuel oil at 4¾¢ per gallon.

Paid note of Penn Foundry Co. due today, with full interest.

Aug. 12, 1913.—Sold Chas. Peters 600 lb. phos. bronze castings at 29¢.

Paid from petty cash for hauling away dirt and rubbish, $5.00.

Aug. 14, 1913.—Pay roll for one half month is as follows:

Foundry wages	$600.00	Foreman	$80.00
Office salaries	100.00	Engineer	30.00

Partners drew on account as follows:

F. H. Hale	$250.00
H. C. Burns	150.00
Edwin Moore	500.00

Paid sundry private bills for H. C. Burns amounting to $375.00.

Aug. 16, 1913.—Paid note for real estate due to-day, interest 6%.

Received cash from S. Jackson for bill of July 19th.

Aug. 18, 1913.—Sold Jack Jackson 500 lb. brass castings at 28¢; 200 lb. phos. bronze (special) at 30¢; and 1000 lb. iron castings at 4¢ per pound.

Aug. 19, 1913.—Paid bill of Philadelphia Horse Bazaar.

Paid for repairs to the foundry building, $1000.00.

Aug. 21, 1913.—P. Henderson paid his bill of August 1st. Chas. Peters paid his bill of August 12th, less 10% discount.

Sold P. Henderson 1000 lb. iron castings at 3¢ per pound, and 1000 lb. brass castings at 28¢ per pound.

Aug. 23, 1913. — Sold J. Johnson 200 lb. iron castings at 5 ¢ per pound.
Sold Peter Smith 500 lb. phos. bronze casting at 30 ¢ per pound.
Received check from him in settlement of his note with interest in full.

Aug. 25, 1913. — Paid bill of United States Sand Co. of July 8th; Camden Coke Co., July 9th; and Pittsburg Copper Co., July 9th.
Paid bill of Texas Oil Co. of July 11th.

Aug. 26, 1913. — Bought 100 bu. lime at 28 ¢ from Germantown Lime Co.
Paid $ 5.00 for cleaning of office windows; $ 2.00 for rubber bands; $ 1.50 for ink; $ 1.00 for pens; and $ 10.00 for oats and corn.

Aug. 31, 1913. — Pay roll for last half of month is as follows:

Foundry hands	$ 600.00	Foremen	$ 80.00
Office Salaries	100.00	Engineer	30.00
Stableman (full month)			75.00

Sent check to New York Life Insurance Co. for premium of insurance of Edwin Moore, $ 100.00, and charged it to his account.
Sold for $ 1000.00 cash one of the boilers in Plant Account.

Post and take a Trial Balance. In posting "Petty Cash," use the original entry method.

Data for Closing the Books of H. C. Burns & Co. — On the evening of Aug. 31, H. C. Burns & Co. take an inventory of materials aud supplies on hand, under the personal supervision of Edwin Moore. The following comprises the inventory, either in the shape of raw material or in the process of manufacture, all of which is priced on the average cost:

25 tons Iron	@ $ 14.15 per ton	$ 353.75
7000 lb. Copper	.13 per pound	910.00
10,000 lb. Zinc	.06 per pound	600.00
60 tons Coal	5.10 per ton	306.00
4000 gal. Oil	.04¾ per gallon	190.00
95 bu. Lime	.28 per bushel	26.60
97 tons Coke	2.50 per ton	242.50
205 lb. Phosphorus	.25 per pound	51.25

NOTE. — (1) Extend the inventory and journalize same, charging total to Inventory Account and crediting each account separately. Charge Profit and Loss with the resulting balance, thus closing each account.

(2) Write off the nominal accounts to Profit and Loss Account, thus closing each one.

The wear on Crucibles being great, $250.00 is charged to Profit and Loss, crediting Crucible Account.

Bad Debts Account is written off to Profit and Loss. Credit Horses and Wagons for $150.00, at the same time debiting Profit and Loss for the value of the horse that died on August 1st.

A bill for taxes that was pigeon-holed by mistake is found. The amount of the bill is $817.17.

Edwin Hale placed orders for sales of pig iron on account of the Pottstown Iron Mines Co. The commission for these sales is $315.15 and is owing to the firm.

A serious error is discovered in the pay-roll department. Nine men, whose total wages amount to $260.00, were left off the last pay roll by mistake.

$33.33 of the insurance is charged to Profit and Loss. The balance is a Financial Account.

The balance of Profit and Loss Account is divided equally among the three partners, and is closed into their Personal Accounts.

The partners' Personal Accounts are closed into the partners' Capital Accounts.

Take off a Balance Sheet in proper form after the books are closed.

PRINCIPAL PROBLEM III

MUDD, CLAY & CO.

The student will use the General, Customers', and Creditors' Ledgers, all three of which may be placed in the same Ledger, provided it be divided into three parts. The original entry books will be ruled by the student on blank sheets, as per the instructions below.

General Ledger Accounts to be Used

Henry Mudd
Charles Clay
William Green
William Green, Personal
Cash
Petty Cash
Machinery
Tools
Horses and Carts
Furniture and Fixtures
Investment
Accounts Receivable
Notes Receivable
Loan Account
Accounts Payable
Notes Payable
Kaolin
Coal
Packing Material
Rent
Stationery and Printing
Engine Supplies
Factory Expense
Light, Heat, and Power
Repairs to Machinery
Repairs to Tools
Stable Expense
Office Supplies
Postage
Freight
Charities and Donations
Office Salaries
Superintendence
Wages
Discount
Advertising
Insurance
Commission
Legal Fees
Discount on Purchases
Packing
Sales Pottery
Bad Debts
Other accounts to be opened as occasion requires.

Instructions for Ruling the Original Entry Books and the Columnar Headings

The Purchase Book is ruled with eleven money columns and one sundry column besides ordinary requirements as regards date and explanation. Column headings are as follows: Date; Ledger Folio;

Account; Explanation; Amount Credit; Kaolin; Coal; Engine Supplies; Packing Material; Repairs to Machinery; Repairs to Tools; Stable Expense; Advertising; Stationery and Printing; Sundries Amount; Account; Ledger Folio.

The Sales Book is ruled with columns similar to the Purchase Book, with column headings as follows:

Date; Ledger Folio; Account; Explanation; Amount Debit; Sales; Packing.

The General Journal is ruled in columnar form with the explanation column in the center, and three money columns to the left and right. Column headings, reading from left to right, are as follows:

Customers' Ledger; Creditors' Ledger; General Ledger; Folio; Explanation; Folio; General Ledger; Creditors' Ledger; Customers' Ledger.

The Cash Book is ruled with both sides conforming to the same ruling. The columns are headed as follows:

Date; Ledger Folio; Account; Explanation; Net Cash; Discount; Customers' Ledger; Creditors' Ledger; General Ledger.

The Petty Cash Book is ruled the same as the Purchase Book with memorandum receipt column to the left. Columns, reading from left to right, are as follows:

Receipts (subdivided into Date and Amount); Date; Explanation; Amount Credit; Postage; Factory Expense; Office Supplies.

The student will enter the following transactions in the proper books:

Jan. 1, 1914.—Henry Mudd, Charles Clay, and William Green have this day formed a partnership under the firm name of Mudd, Clay & Co. for the purpose of engaging in the production of pottery and chinaware. The capital of the firm is $50000.00, of which Mudd invests $20000, Clay, $20000.00, and Green, $10000.00.

Profits are to be shared in proportion to the capital invested. The above capital is paid in by the several partners in cash.

Rented from John Doe a manufacturing site, with buildings, for $3000.00 per annum, and sent check for one month's rent in advance.

Jan. 3, 1914.—Purchased from the Climax Machine Co., boiler and machinery for $25000.00.

Purchased of the Office Furniture Co., office furniture, $2000.00.

Purchased from the New Tool Co., tools aggregating in value $3000.00.

Jan. 6, 1914. — Discounted the firm's note at the Merchants' National Bank for $50000.00. Term of note, 30 days; discount rate, 6 %. (Use 30 days as basis for discount computation.)

Paid Climax Machine Co.'s bill of 3d, being allowed 3 % discount for cash.

Jan. 8, 1914. — Ordered of the Bituminous Coal Co., 270 tons of coal at $2.50 per ton; payment to be made on receipt of cars. (No entry in Purchase Book until coal is delivered.)

Purchased from J. H. Jones, oil and waste for use in engine room, $50.00.

Bought of Potter's Clay Co., 500 tons kaolin, $5000.00. Terms, 2 % in 10 days.

Jan. 11, 1914. — First car of coal received on order of 8th; weight, 47 tons. (Enter in Purchase Book, then in Cash Book — see 8th.)

Purchased of L. J. Black, 12500 packing crates, together with straw, $1250.00.

Jan. 13, 1914. — Bought of Holt & Burns, 700 tons kaolin $7700.00. Gave note in payment of same. Sold M. S. Pearce 1500 crates of pottery at $2.50 per crate. Charged 10 % additional for packing.

Jan. 15, 1914. — Paid factory hands, $400.00. Paid engineers' wages, $150.00.

Purchased of A. K. Root, 1000 tons kaolin, $15000.00.

Received last five cars of coal, ordered on 8th; weight, 229 tons.

Jan. 17, 1914. — Sold to The World's Department Store Co., 1000 crates of pottery at $3.00 per crate. Charged them $250.00 for packing.

Bought of the Eastern Horse Exchange, draft horses, $1000.00. Paid for same in cash.

Purchased from Hub and Spoke, for cash, carts and harness, $700.00. Sent them check for same.

Jan. 19, 1914. — Sold Hutter Bros. 1500 crates earthenware at $2.75 per crate. Charged them 10 % additional for packing.

Purchased of the Blank Book Co., stationery, $1250.00. Mailed check for same.

Drew check for petty cash purposes, $250.00.

Jan. 22, 1914. — Sold 2000 crates finished stock to Wallingford & Co., at $3.00 per crate. Charged them $500.00 for packing.

Bought 1000 two-cent postage stamps, paying for same from petty cash.

Paid insurance premium for one year in advance, $250.00.

Jan. 24, 1914. — Received from M. S. Pearce his 30-day note in payment of bill of 13th instant.

Mailed check to Office Furniture Co. in payment of bill of 3d instant.

Sold James K. Wallace 3500 crates of pottery at $2.00 per crate. Charged him $750.00 for packing.

Jan. 25, 1914. — Received bill from Poster & Paiste for advertising. (Contract for advertising which runs one year from Jan. 1; amount of contract, $3000.00.)

Received bill from Fixem & Son for repairs to machinery, $100.00.

Jan. 26, 1914. — Paid cash from drawer for soap, towels, and brushes for factory use, $50.00.

Green withdrew $300.00 for personal use.

Ordered 300 tons of coal at $2.50 from the Bituminous Coal Co.

Jan. 29, 1914. — Sold to The World's Department Store Co., 750 crates of chinaware at $3.00 per crate. Packing on above, $200.00.

Purchased from L. J. Black, 10000 packing crates and straw, $1000.00.

Received 4 carloads of coal ordered on the 25th; weight, 205 tons.

Jan. 31, 1914. — Paid wages of factory hands, $800.00; engineers' wages, $150.00; office salaries, $220.00; superintendents' wages, $240.00; teamsters' and stablemen's wages, $100.00.

Total and post all books, after transferring Petty Cash totals to the General Cash Book. Take Trial Balance of the General Ledger, and supplement it by schedules of the Customers' and Creditors' Ledgers, to prove the control of the General Ledger Accounts "Accounts Receivable" and "Accounts Payable" over these subsidiary Ledgers.

Feb. 1, 1914. — Mailed check to John Doe for rent of February.

Allowed claim of Wallingford & Co. of $119.50 on goods sold to them on the 22d ultimo.

Paid Window Cleaning Co. from drawer for cleaning factory windows, $50.00.

Feb. 3, 1914. — Received last two cars of coal ordered on the 26th ult.; weight, 91 tons.

Bought from the Ribbon Typewriter Co., one typewriter costing $100.00 net.

Paid bill of New Tool Co., dated Jan. 3.

Feb. 5, 1914. — Firm contributed gratis 10 crates of finished stock, to aid the Charity Fair, valued at $100.00.

Returned 100 tons kaolin purchased from A. K. Root on the 15th ult.

Paid firm's note of Jan. 6, due to-day.

Feb. 7, 1914. — Paid freight bill for January by check, $22.50.

Paid from drawer for pens, pencils, ink, etc., $10.00.

Discounted M. S. Pearce's note at Merchants' National Bank. Face of note, $4125.00. Proceeds, $4092.69.

Feb. 8, 1914. — Received the following bills: Fixem & Son, for Repairs to Tools, $75.00; J. H. Jones, for Engine Oil, $35.00.

Received from Hutter Bros., their note at 15 days for $4000.00, to apply on account.

Paid A. K. Root, $10000.00, on account.

Feb. 11, 1914. — Received invoice from A. Hammer for horseshoeing, $65.00.

Bought of Holt & Burns, 300 tons kaolin, for $3300.00. Gave in payment note for $1000.00; sight draft on J. K. Wallace, $2000.00; balance on account.

Bought of Broker & Co., 500 shares of the capital stock of the San Rosario Rubber Co., at 90 ($45000.00). Commission $62.50. Charge the entire amount including the commission to the account Investments.

Feb. 12, 1914. — Borrowed of the National Deposit Bank, $10000.00, on demand, at 5 %, putting up as collateral 400 shares of the stock purchased.

Borrowed of the Farmers' State Bank $8000.00, on demand, at 5 %, giving as security 100 shares of the stock purchased.

Received from The World's Department Store Co., $3250.00, in payment of invoice of the 17th ult.

Feb. 14, 1914. — Discounted Hutter Bros.' note received on 8th inst. Discount, $6.00.

Received from J. K. Wallace, $5000.00, on account.

Discounted firm's 30-day note at Merchants' National Bank for $20000.00. Discount rate 6 %. (Calculate discount at 30 days.)

Mailed Broker & Co. check for $45062.50 in payment of stock purchased.

Feb. 15, 1914. — Sold M. S. Pearce 1500 crates finished goods (earthenware), $3750.00. Packing, $375.00.

Paid factory hands, $1200.00; engineers' wages, $150.00; drivers' wages, $100.00.

Feb. 19, 1914. — Paid attorney-at-law, $100.00, for services.

Holt & Burns have drawn on firm at sight in favor of Jones & Smith for balance due on open account, $300.00. Firm accepts draft, payable at bank.

M. S. Pearce returned 100 crates of goods purchased on 15th inst. Credited his account with $250.00.

Pay the following bills: Poster & Paiste, $3000.00; Potter's Clay Co., $5000.00.

Feb. 21, 1914. — Sold J. K. Wallace 1000 crates finished goods (chinaware) at $2.00 per crate. Packing, $250.00.

Bought of the New Tool Co., additional tools, $500.00.

Hutter Bros. owe the firm $537.50, on account. L. J. Black assumes this debt and pays $137.50 in cash. Balance charged to his account.

Discount firm's note at Merchants' National Bank for $10000.00. Time of note, 10 days; discount 6 %.

Feb. 23, 1914. — Ordered from the Bituminous Coal Co., 400 tons coal at $2.50.

Hutter Bros. have declared an assignment for the benefit of creditors. As indorser on their note, due to-day, firm paid it with protest fees, $2.00.

Feb. 25, 1914. — Received 5 cars of coal ordered on the 23d inst.; weight, 240 tons.

Feb. 28, 1914. — Paid factory hands, $1200.00; engineers' wages, $150.00; drivers and stablemen, $100.00; superintendents' wages, $240.00; office salaries, $220.00.

Received the last three cars of coal ordered on the 23d inst.; weight, 150 tons.

Received from the assignee of Hutter Bros., 25 ¢ on the dollar in full settlement of their note of $4000.00 and protest fees.

Post and take Trial Balance of all Ledgers. Use Petty Cash Book as a book of original entry.

Data for Closing the Books of Mudd, Clay & Co. — Prepare closing entries in order to ascertain net gain or loss of the business for the two months, taking into consideration the following detailed data; and using Manufacturing, Trading, and Profit and Loss Accounts, placing all the items that would have gone into Administration Account into Profit and Loss Account.

(*a*) Provide depreciation as follows:

1. On Machinery at the rate of 10 % per annum
2. On Tools at the rate of 25 % per annum.
3. On Horses and Carts at the rate of 15 % per annum.
4. On Furniture and Fixtures at the rate of 35 % per annum.

Provide also the following reserves:

5. 1 % on Accounts Receivable for anticipated discounts.
6. 3 % on Accounts Receivable to cover anticipated bad debts.

(*b*) Charge off as follows:

1. Charge off the expired portion of Advertising Contract.

2. Charge off the expired portion of Insurance Premium.

(*c*) The following expenses have accrued and must be provided for:

1. Wages $300.00.
2. Interest on Loans, 16 days on each loan, at 5%.

(*d*) The inventory discloses:

Materials and Supplies together with finished stock on hand.

1. Kaolin	$7200.00
2. Packing Material	874.00
3. Coal (162 tons @ $2.50)	405.00
4. Finished Stock (Earthenware)	8000.00

(*e*) Divide the stable expense together with the depreciation on horses and carts equally between the manufacturing and trading accounts, as the use of the teams has been approximately half and half in each department.

Apportion the rent 90% to factory and 10% to office.

(*f*) Provide interest on partners' capital at the rate of 6% per annum, to be credited to them. Charge the same rates on withdrawals.

Submit final Balance Sheet in approved form.

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